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# Local Plan Viability – Addendum

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Completed on behalf of Durham County Council



June 2019

CP Viability Ltd



*Independent Property Experts*

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## 1. INTRODUCTION

### 1.1. Background

- 1.1.1.** Durham County Council (“the Council”) is currently in the process of developing the County Durham Plan, which is proposed to cover the period up to 2035.
- 1.1.2.** In March 2018, to support this process, CP Viability undertook viability testing of the Council’s emerging policies (focusing on affordable housing and other S106 policy requirements such as education contributions, open space provision, older person housing etc). Please note, County Durham has taken the decision not to progress with the implementation of the Community Infrastructure Levy (“CIL”). We understand various factors were considered in reaching this decision, including the draft proposals to remove the current S106 pooling restrictions. For clarity, CIL testing was therefore excluded from the previous study.
- 1.1.3.** In terms of approach, in line with the guidance we prepared residual appraisals for various site typologies (based on 5, 20, 50, 80, 125, 200 and 350 dwellings). This involves identifying the ‘end’ value of a scheme (i.e. once all the dwellings are constructed) and from this netting off all the development costs (including developer profit) to complete the development. The ‘residual’ is the land value that could be paid for the site. Separately, this residual land value is then compared to the ‘benchmark land value’ (which is deemed to be the minimum price that a hypothetical landowner would require to release the site for development). In short, if the residual land value is above the benchmark land value the scheme is considered to be viable, if it is below it is considered to be unviable.

- 1.1.4.** Please note, the typology testing undertaken was also supplemented by some ‘live’ site testing of larger scale (over 500 dwellings) residential schemes.
- 1.1.5.** Our initial base appraisals, which excluded any planning policies, demonstrated that the overwhelming majority of schemes were viable and could deliver some level of policy contributions.
- 1.1.6.** Building on this base position we then re-ran the models, incorporating different emerging policies to test their impact on viability.
- 1.1.7.** In addition, we also ran sensitivity testing. When running residual appraisals it is acknowledged by the RICS that small changes to the assumptions (for example build costs, professional fees, developer profit, marketing etc) can have a significant impact on the outcome of the appraisal. As each input is potentially subject to variance (and open to debate) this can reduce the reliability of the approach. To minimise this impact the guidance recommends running sensitivity testing where key variables are adjusted to see the impact this could have on the outcome. A holistic approach can then be adopted whereby all results are reviewed before a final conclusion is reached.
- 1.1.8.** One of the key variables adopted in the 2018 study was in relation to locational factors and in particular the influence this has on sales values. For the purposes of the exercise we identified 4 value locations where sales values were varied (labelled as low, medium, high and highest).
- 1.1.9.** We concluded that due to the nature of viability, and in particular the relationship between sales values and build costs, generally sites in lower value locations will typically have a greater pressure on viability than sites in higher value locations. This was supported through our appraisal testing, which demonstrated that not all site locations will be able to support the same level of policy contributions / costs.

**1.1.10.** In light of this, we concluded that adjustments should be made in relation to affordable housing (which is typically the most significant ‘cost’ to a developer in terms of planning policy contribution). We suggested the following rates:

<b>Highest value location</b>	-	<b>25%</b>
<b>High value location</b>	-	<b>20%</b>
<b>Medium value location</b>	-	<b>15%</b>
<b>Low value location</b>	-	<b>10%</b>

**1.1.11.** The above rates were deemed reasonable with general S106 contributions / costs equivalent to £5,000 to £7,000 per dwelling, plus an onsite Older Person Housing provision at 10%.

**1.1.12.** We indicated that if the general policy requirements were to exceed the range of £5,000 to £7,000 per dwelling then it would likely be necessary to reduce the affordable housing rates suggested above.

**1.1.13.** In addition, the testing undertaken found that market value apartment schemes were only marginally viable in high value locations, even without any policies applied. We suggested policy adjustments should therefore be considered for apartment schemes.

**1.1.14.** It was also found that specialist ‘over 55s’ retirement living was viable and could provide some level of provision. This could be provided as a commuted sum, with a range of £3,000 to £4,000 per dwelling recommended.

## 1.2. Scope of this addendum report

### 1.2.1. This addendum report is considered appropriate in light of the following:

- (i) Since our previous testing in March 2018 central government has published a National Planning Policy Framework revision (July 2018 and updated in February 2019). Furthermore, the Planning Practice Guidance on viability has also been published (July 2018), which supersedes various elements of the previous professional guidance for preparing viability assessments (the RICS Guidance Note and Viability and Harman Review). For the purposes of this update we have summarised the key changes on viability matters and where appropriate highlighted how this impacts on the work already undertaken.
- (ii) There has been further engagement with stakeholders in relation to key appraisal assumptions. This report summarises previous stakeholder engagement undertaken together with further engagement which has taken place following our report in March 2018. This is with a view to determining whether additional sensitivity testing is deemed necessary to provide a more robust assessment of plan viability.
- (iii) Some of the emerging policies have evolved between ‘Preferred Options’ and the ‘Pre-Submission Draft’. We have considered each of these and again determined whether further testing is appropriate.

### 1.2.2. For ease of reference, this addendum report considers each of the above separately.

## 2. NATIONAL POLICY CONTEXT AND PROFESSIONAL GUIDANCE

### 2.1. National Planning Policy Framework ('NPPF') July 2018 & updated Feb 2019

- 2.1.1.** The NPPF sets out the Government's planning policies and how these should be applied in plan making. The latest version was published in July 2018 (updated Feb 19). The NPPF states:

***Para 34** – Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.*

- 2.1.2.** The NPPF also explicitly refers to viability on a number of occasions. The key paragraphs are stated below:

***Para 57** – Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.*

- 2.1.3.** The general tone of the NPPF regarding viability is that the policies set by Local Authorities through their plan-making should be set at levels which do not undermine the viability of development. The NPPF is clear that there is a finite level of available monies derived from development which can be used to meet policy requirements. If the Local Authorities set their policies above this finite threshold, then this will undermine scheme delivery. Policies should therefore be carefully considered and set at realistic and deliverable levels. This is a key component of the original 2012 NPPF, therefore this does not impact on the viability testing undertaken (as it was already a factor in our considerations).
- 2.1.4.** From a viability perspective, the main changes between the 2012 and 2018 versions of the NPPF is in relation to affordable housing. The NPPF now explicitly refers to mix of tenure and sets a minimum expectation by stating that at least 10% should be made available for affordable home ownership. There are some exemptions, albeit viability is not referred to as being a reason which qualifies as an exemption (therefore this requirement also applies to sites located within low demand areas).

***Para 64** – Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions to this 10% requirement should also be made where the site or proposed development:*



- a) *provides solely for Build to Rent homes;*
- b) *provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);*
- c) *is proposed to be developed by people who wish to build or commission their own homes; or*
- d) *is exclusively for affordable housing, an entry-level exception site or a rural exception site.*

**2.1.5.** Furthermore, what constitutes an ‘affordable dwelling’ has also been amended, with the definition now expanded in Annex 2 of the NPPF to include the following:

- (a) ***Affordable housing to rent:*** *meets all of the following conditions: (a) the rent is set in accordance with the Government’s rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).*

- (b) **Starter homes:** is as specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used.
- (c) **Discounted market sales housing:** is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.
- (d) **Other affordable routes to home ownership:** is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to Government or the relevant authority specified in the funding agreement.

**2.1.6.** The Starter Homes / discounted market sale definitions are new additions and will potentially have a positive impact on viability as these tenure bases can secure up to 80% of market value (whereas the other definitions typically receive significantly below this level).

**2.1.7.** However, we do not consider it necessary to run any further appraisal testing as in our March 2018 one of our sensitivity tests was based on a Starter Home product of up to 80% of market value (because at the time it was anticipated that this was likely to be an emerging central government policy). This is shown in our March 2018 report as ‘Sensitivity Test 10’ within Chapter 5. Following the testing we concluded that this would have a positive impact on scheme viability and was likely to increase the amount of schemes that could provide affordable housing. Furthermore, as the proportion of Starter Homes increases in turn this increases the amount of affordable housing that could be delivered.

## **2.2. Planning Practice Guidance (‘PPG’) on viability**

**2.2.1.** This is an online tool, which has been regularly updated in recent years. This seeks to provide planning guidance in the context of the NPPF, covering a variety of areas including: viability, Build to Rent, CIL, Planning obligations, Housing – optional technical standards, self-build and custom housebuilding and Starter Homes (amongst others).

**2.2.2.** Alongside the publication of the latest version of the NPPF in July 2018, the government also published updated guidance (through the PPG) on viability. This is split into 4 sections, as follows:

Section 1 – Viability and plan making

Section 2 – Viability and decision making

Section 3 – Standardised inputs to viability assessment

Section 4 – Accountability

**2.2.3.** We have summarised what we consider to be the key points raised in each section, as follows:

Section 1 – Viability and plan making

- Plans should set out the contributions expected from development. This includes affordable housing and infrastructure (e.g. education, transport, health etc).
- Affordable housing requirements should be expressed as a single figure rather than a range.
- The role of viability assessment is primarily at the plan making stage.
- It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies.
- Drafting of plan policies should be iterative and informed by engagement with stakeholders.
- The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan.
- Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage.

- It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant.

### Section 2 – Viability and decision making

- Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable.
- It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.
- Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.

### Section 3 – Standardised inputs to viability assessment

- Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available.
- With regards to revenue, for viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used. For broad area-wide of site typology assessment at the plan making stage, average figures can be used.

- Assessment of costs should be based on evidence which is reflective of local market conditions. Costs include build costs, abnormals, site-specific infrastructure, policy requirements, finance, professional fees and marketing.
- Explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.
- To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. This should reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees. This should also be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing.
- Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).
- Existing Use Value is the first component of establishing the benchmark land value. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. The premium (or the 'plus' in EUV+) is the second component of benchmark land value. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.

- For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used.
- For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.
- The economics of build to rent schemes differ from build for sale as they depend on a long-term income stream. Scheme level viability assessment may be improved through the inclusion of two sets of figures, one based on a build to rent scheme and another for an alternative build for sale scheme.

#### Section 4 – Accountability

- The inputs and findings of any viability assessment should be set out in a way that aids clear interpretation and interrogation by decision makers.
- Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.

- In circumstances where it is deemed that specific details of an assessment are commercially sensitive, the information should be aggregated in published viability assessments and executive summaries and included as part of total costs figures.

**2.2.4.** It is considered that our March 2018 adhered to the PPG on viability guidance.

**2.2.5.** However, one crucial area which is now clearly set out in the PPG is in relation to benchmark land value and how this is assessed. As indicated above, the PPG is clear that:

- Firstly, the existing use value of the site must be identified. This should disregard any hope value for future development.
- Secondly a premium uplift should then be applied. The premium for the landowner should reflect the minimum return which it is considered a reasonable landowner would be willing to sell their land. However, this premium uplift must take into account the circumstances of the site, in particular the level of abnormal costs and planning policy requirements. For example, if abnormal costs are high then the premium uplift should be reduced.
- To inform the benchmark land value the guidance states that market evidence can be used. However, any market transactions considered must either be fully policy compliant or adjusted to reflect full policy compliance. Factors such as abnormal costs must also be considered, to ensure a 'like for like' comparison. This, though, is a secondary 'sense check' and the existing use value plus premium is the primary method for establishing a benchmark land value.



**2.2.6.** The focus is now clearly on first establishing the existing use value before considering the premium uplift.

**2.2.7.** For our March 2018 report a similar approach was adopted, whereby we looked at underlying existing use values and applied a premium. However, the report does not explicitly detail the level of premium uplifts that were applied.

**2.2.8.** For the purposes of this addendum we therefore consider it appropriate to revisit the existing use values and look to analyse what premium uplifts were applied and whether these remain reasonable or should be adjusted and re-tested.

**2.2.9.** For greenfield sites, we arrived at the following benchmark land values:

<b>Low value area</b>	-	<b>£200,000 per gross Ha</b>
<b>Medium value area</b>	-	<b>£325,000 per gross Ha</b>
<b>High value area</b>	-	<b>£500,000 per gross Ha</b>
<b>Highest value area</b>	-	<b>£900,000 per gross Ha</b>

**2.2.10.** For existing use values we have looked at agricultural land and note the following currently available in the market place:

- Potterhouse Lane, Durham. Grade 3 land. 59 Ha. Asking price £18,668 per Ha.
- Crook. Grassland. 60 Ha. Asking price £12,489 per Ha.
- Houghton le Spring. Grade 3 land. 50 Ha. Asking price £11,002 per Ha.
- Wheatley Hill. Grade 3 land. 68 Ha. Asking price £8,044 per Ha.
- Elton. Grade 3 land. 26 Ha. Asking price £18,029 per Ha.
- Bishop Auckland. Grass and arable land. 17 Ha. Asking price £14,987 per Ha.
- Langley Estate. Grass and arable land. 14 Ha. Asking price £17,782 per Ha.
- Langley Estate. Grade 3 land. 11 Ha. Asking price £18,433 per Ha.

- Wingate. Grade 3 land. 11 Ha. Asking price £14,663 per Ha.
- County Durham. Grassland. 8 Ha. Asking price £15,075 per Ha.
- Redmarshall, County Durham. Grassland. 4 Ha. Asking price £13,005 per Ha.
- Langley Park. Arable and pasture. 3 Ha. Asking price £15,405 per Ha.
- Langley Park. Grassland. 2 Ha. Asking price £13,856 per Ha.

**2.2.11.** There is a degree of variation in agricultural land values, mainly reflecting the nature of the land. Notwithstanding this, based on the above sample the average equates £14,726 per gross Ha.

**2.2.12.** In light of this we consider an average land value of £15,000 per gross Ha to be reasonable for the purposes of the viability testing.

**2.2.13.** In terms of a premium uplift, in our experience this tends to range between 5 and 25 times the existing use value. The lower end of the range typically reflects larger scale sites with significant abnormalities and in low value areas. The higher end of the range reflects sites in higher value areas, of a smaller and will little or no abnormal costs.

**2.2.14.** That said, we are aware of the recent (Oct 2018) “Report on the examination of the draft North Tyneside Community Infrastructure Levy Charging Schedule”<sup>1</sup>. In their report, the Inspector states:

“The benchmark or threshold land value applied is some 30 times existing use value (EUV) on greenfield sites (recognising the range is 20 – 30 times)... I see little persuasive evidence that these judgements are unreasonable”. Para 21

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<sup>1</sup> <https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/2018-11-22%20-%20Appendix%203%20-%20CIL%20Report%20Final%20Oct%202018.pdf>

**2.2.15.** However, the report goes on to say:

“The modelling also factors in an allowance for ‘abnormal’ costs on previously developed land [i.e. brownfield land] at £100,000 per hectare. For greenfield land I note the 2018 AWVA (paragraph 6.11) states that such sites can also require significant additional funding to make them appropriate for development, however the risk is reduced. It is put to me that land stability from former mining is a common matter for development in North Tyneside however it is acknowledged that not every plot or parcel of land requires remedial treatment. As such particular costs on some parts of a site can be borne by the wider site, although I note the specific viability modelling for the strategic sites makes a £3000 per unit allowance. Additionally, given the history of the area the risk should have a bearing on the BLV. This, in part, informs my judgement that the approach taken in the North Tyneside CIL of a greenfield premium of up to 30 times EUV to be a reasonable approach in contrast to those submissions which assert the premium should be higher. I therefore find the approach to abnormal costs to be reasonable”. Para 32

**2.2.16.** This suggests that the North Tyneside viability testing excludes any allowance for abnormal costs on greenfield sites.

**2.2.17.** We have subsequently reviewed Capita’s “Area Wide Viability Assessment CIL updated, 2018<sup>2</sup>” prepared on behalf of North Tyneside Council to confirm this. We note that the report (para 6.11) refers to an allowance of £100,000 per Ha to cover abnormal costs for brownfield sites, but does not refer to any uplift for greenfield sites. On this basis, it is clear that when determining benchmark land value for the North Tyneside sites there is an assumption of nil abnormal costs for greenfield land.

**2.2.18.** This is significant because if a site has nil abnormal then the level of premium above the existing use value should be increased (and vice versa if there are abnormal factors in this will push the level of premium down). At this point, we would stress that our base appraisal testing for the greenfield sites included an average allowance of £75,000 per net ha for abnormal costs. On this basis, the premium uplift applied in the North Tyneside testing (up to 30 times the existing use value) should be higher than our testing because at North Tyneside nil abnormal were allowed.

**2.2.19.** Based on the land values adopted, the premium uplifts in our March 2018 testing equated to the following:

<b>Low value area</b>	-	13.33 times the existing use value
<b>Medium value area</b>	-	21.67 times the existing use value
<b>High value area</b>	-	33.33 times the existing use value
<b>Highest value area</b>	-	60 times the existing use value

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<file:///C:/Users/CP%20Viability%20Ltd/Downloads/CIL%20NTC%208%20AWVA%20Update%202018%20Community%20Infrastructure%20Levy.pdf>



**2.2.20.** At North Tyneside a range of 20 to 30 times the existing use value was accepted through examination, based on nil abnormal costs. Based on our abnormal cost assumption of £75,000 per net Ha our adopted rates were in excess of this range for ‘high’ and ‘highest’ value areas (significantly for the latter). The ‘medium’ value area fell within the 20 to 30 times range, even though it could be argued that because of the abnormal cost assumption the uplift should have been reduced below this level. Within the context of the North Tyneside allowances our premium uplifts therefore appear generous for the medium, high and highest value areas.

**2.2.21.** Furthermore, following comments received from stakeholders one of our sensitivity tests (Test 11) assumed a 25% increase in the benchmark land value. This increases the premium uplifts as follows:

<b>Low value area</b>	-	16.67 times the existing use value
<b>Medium value area</b>	-	27.08 times the existing use value
<b>High value area</b>	-	41.67 times the existing use value
<b>Highest value area</b>	-	75 times the existing use value

**2.2.22.** This generates premiums even higher and therefore again suggests this is a more than generous approach when considered within the context of the North Tyneside examination commentary.

**2.2.23.** In summary, in light of the increased emphasis on premium uplifts if anything it could be argued that the benchmark land values adopted in March 2018 were overly generous and should be reduced.



**2.2.24.** Following further stakeholder engagement (discussed in more detail in Section 3 below) the abnormal cost allowance of £75,000 per net Ha was suggested as being too low. However, as suggested above, this should be considered within the context of the benchmark land value. As discussed above, the benchmark land values could be seen as being overly generous. If the abnormal costs were to be increased there would be a stronger argument to reduce the benchmark land values (this is also discussed in more detail in Section 3).

**2.2.25.** For brownfield land, the premium uplift tends to be lower (because the existing use values are considerably higher than agricultural land), in our experience in the region of 10% to 30% the existing use value.

<b>Low value area</b>	-	<b>£175,000 per gross Ha</b>
<b>Medium value area</b>	-	<b>£275,000 per gross Ha</b>
<b>High value area</b>	-	<b>£450,000 per gross Ha</b>
<b>Highest value area</b>	-	<b>£800,000 per gross Ha</b>

**2.2.26.** For existing use values we have assumed that this will also fluctuate dependent on the value area. For example, a brownfield site is likely to have a significantly lower existing use value when compared to a brownfield site in the highest value area. We have assumed a low value area existing use value of £150,000 per Ha, £225,000 for the medium value area, £325,000 for high value area and £550,000 for the highest value area. Based on these assumptions the brownfield site uplifts equate to the following:

<b>Low value area</b>	-	16.67% the existing use value
<b>Medium value area</b>	-	22.22% the existing use value
<b>High value area</b>	-	38.46% the existing use value
<b>Highest value area</b>	-	45.45% the existing use value

**2.2.27.** Again, the above can be regarded as generous when assessing viability.

**2.2.28.** We also ran a sensitivity test (Test 11) assumed a 25% increase in the benchmark land value. This increases the premium uplifts as follows:

<b>Low value area</b>	-	45.83% the existing use value
<b>Medium value area</b>	-	52.78% the existing use value
<b>High value area</b>	-	73.08% the existing use value
<b>Highest value area</b>	-	81.82% the existing use value

**2.2.29.** In summary, the base appraisal assumptions are considered to be generous (albeit within the context of the abnormal cost assumptions). Furthermore, sensitivity testing has also been adopted whereby we have applied higher rates. We therefore consider the approach adopted to be cautious for the purposes of a viability assessment. No further testing is therefore deemed necessary in respect of benchmark land values.

### 3. FURTHER STAKEHOLDER ENGAGEMENT

#### 3.1. Previous engagement

**3.1.1.** As set out in our March 2018 report the Council has been proactive in undertaking stakeholder engagement with respect to viability matters. This has included:

- In preparation for the Council's Issues and Options 2016 version of the plan DVS (on behalf of the Council) undertook 2 stakeholder workshops. We took into account the comments made during these workshop in forming our conclusions:
  - (i) Workshop 1 Sept 2015 – comprised a presentation from DVS on general appraisal inputs and a subsequent discussion (in an open forum) regarding the views of the stakeholders regarding these inputs. After this workshop stakeholders were given the opportunity to put their views in writing with the circulation of a questionnaire. However, only two parties responded to this.
  - (ii) Workshop 2 Oct 2015 – DVS gave a presentation detailing their draft conclusions on viability appraisal inputs, formed post Workshop 1. This gave stakeholders a further opportunity to raise any comments about the proposed appraisal inputs.



- The above informed an “Issues and Options” report, dated June 2016, which itself was subject to a 6 week consultation process. This document is available on the Council’s “County Durham Plan” evidence library, part of the consultation portal<sup>3</sup>. This was written as a ‘starting point’ on viability testing to stimulate debate with key stakeholders. We also took this into consideration.
  
- In August 2017 CPV completed a report titled “Residential Market Assessment of County Durham and the Likely Delivery of Suitable SHLAA Sites”. As part of this study, a number of stakeholder workshops were undertaken, including a Housebuilder Workshop, a Housing Developer Group workshop and a presentation / discussion with the County Durham Housing Forum. Furthermore, a questionnaire was circulated to key developer stakeholders, focusing on their involvement in the County Durham market and their feedback on current market conditions. Again, the comments received were factored into our March 2018 study.

**3.1.2.** Since this time, stakeholders have also been formally engaged through a ‘Preferred Options’ process during the summer of 2018.

## **3.2. Further engagement**

**3.2.1.** In November 2018 the Council was approached by 3 housebuilders and subsequently the Home Builder Federation raising concerns about viability matters and requesting a meeting to discuss in more detail the areas of concern.

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<sup>3</sup> <http://durhamcc-consult.limehouse.co.uk/portal/planning/cdpev/>

**3.2.2.** On 6<sup>th</sup> February 2019 a meeting was held at Durham County Hall, attended by CP Viability Ltd, Council officers, various members of the Home Builder Federation plus other stakeholders (including landowners / their representatives). This was to discuss the key viability assumptions that had been adopted in the March 2018 study and again provide an opportunity for stakeholders to raise any concerns. The meeting was held as an open forum, albeit CP Viability providing overhead slides to stimulate the debate. Some areas of agreement were confirmed during the discussions, whilst some areas required further investigation / debate. Post-meeting it was agreed that stakeholders would seek to provide further evidence to justify their positions, which could then be considered by CP Viability (and whether it was necessary to undertake any further appraisal testing in light of the information received).

**3.2.3.** The agreed minutes to the meeting are attached as Appendix 1. Various assumptions were discussed and it was agreed that post-meeting there would be an opportunity for stakeholders to submit further evidence to support any concerns they had identified. The main queries raised covered the following:

- Approach to determining sales values (Land Registry and EPC method).
- If sales values deemed incorrect, evidence to support any proposed adjustment.
- Coverage and whether the allowance was reasonable.
- Definition of what is included within the BCIS build cost rates, acknowledgment that these are taken at a point in time and for individual builders to provide evidence if they consider the BCIS rates to be too low

- External costs and whether the allowances applied were too low (housebuilders to provide evidence to support their position).
- Abnormal costs. Agreement that these will fluctuate from site to site, however stakeholders considered that the 'spot allowance' was significantly lower than their own typical experiences. Consideration to be given about the balance between land values and abnormal costs.
- Benchmark land values to be reconsidered and views from land agents sought.
- Developer profit. Stakeholders to provide evidence if these assumptions are considered to be incorrect.

**3.2.4.** For ease of reference we have discussed the above elements and any action deemed appropriate on an individual basis.

### **3.3. Approach to identifying sales values (Land Registry / EPC data)**

**3.3.1.** To identify average land values we analysed Land Registry sales data across County Durham. This information provides an address, dwelling type, date of sale and sales price. In order to provide a more focused analysis (particularly differences between dwelling sizes) the EPC Register data is then used (which gives an internal area for each dwelling). By applying the EPC data we are able to identify a broad sales rate on a per sq m basis.

**3.3.2.** This approach was deemed appropriate for the following reasons:

- (i) This approach has been adopted by other authorities and accepted through the examination process. Newcastle and Gateshead both adopted this approach in their Core Strategy assessment and CIL testing, each of which was successfully taken through examination.
  
- (ii) In our experience, it is an approach used on a wide-spread basis in preparation of viability assessments for individual planning applications and area wide studies. The method is used by Local Authorities, surveyors, landowners and house-builders (albeit it is accepted that not all parties consistently use the approach).
  
- (iii) For the purposes of an area-wide study the assessor is looking to establish appropriate average sales values. It is accepted that the sales data collected through the Land Registry will reflect a variety of different dwelling types, for example some of dwellings that form the date will comprise garages and some of which will not. The rates per sq m data will therefore show a range of figures to reflect these variations. However, we have not looked to adopt values at the top end of the range, but instead looked to arrive at average values, which mitigates these variations.
  
- (iv) Furthermore, there is a lag of around 3 – 6 months in the Land Registry data, due to the time it takes for new transactions to be submitted to the Land Registry following a sale and to be uploaded onto the database. As such, any house price inflation that has taken place in recent months (over a 1 to 2 quarter period) is not reflected in the evidence. This inherent lag helps further in ensuring that the values are not at the extremes of achievability when considering viability, reducing any concerns about the accuracy of the approach.

(v) The alternatives have their limitations. One approach would be to approach volume housebuilders and request details of sales achieved and the size of each dwellings. However, this is time consuming for both the assessor and the housebuilder and as a result, from experience, housebuilders are understandably reluctant to engage in this process. It is also necessary to seek to corroborate this data to ensure its accuracy, therefore there would still need to be analysis of the Land Registry data. With respect to dwelling sizes, the most obvious way would be to review planning applications for new build estates. However, again this is extremely time consuming and furthermore typically planning applications will refer to ‘plots’ rather than addresses, which makes it difficult to identify which plot relates to a specific address (leaving to the potential for inaccuracies).

**3.3.3.** Stakeholders raised the following queries with regards to the approach:

- (i) Concern that Land Registry sales data reflects the gross price, rather than being net of incentives, over-inflating the values identified.
- (ii) Concern that the EPC measurement is net area rather than gross internal area, again which serves to inflate the rate per sq m.
- (iii) Concern that garages (detached and integral) are not being appropriately reflected through the use of the Land Registry / EPC approach.

**3.3.4.** With respect to sales incentives, we note the following as stated within HM Land Registry Guidance “Practice guide 7: entry of price paid or value stated data in the register”:

*“5.1 Discounts and incentives: Often developers offer discounts and incentives to prospective buyers. In this case we enter the net (lower) price paid in the register. If we are unable to identify the net price, we will request this. The reason for this is that entry of the pre-discount price may be misleading. Certain incentives, such as legal and moving costs, are not treated as a discount for price paid purposes.”*

- 3.3.5.** In other words, the Land Registry sales data already allows for any sales incentives incurred as part of the sale. A further deduction would therefore reflect double-counting. Furthermore, as indicated the Land Registry data lags behind the market, therefore can be deemed to be on the low side. Also, when we apply the data we adopt average figures, not at the extremes of the identified ranges, which again is deemed to be a cautious approach.
- 3.3.6.** For these reasons, we consider the approach is already inherently reflective of the potential impact of sales incentives.
- 3.3.7.** With regards to how areas are measured (and how garages are factored in) for the purposes of an EPC this refers to the “total useful floor area”. Under the government’s “A guide to energy performance certificates for the marketing, sale and let of dwellings” (Dec 2017)<sup>4</sup> in Annex A: Glossary of Terms this is described as being akin to the gross floor area as measured in accordance with guidance issued to surveyors.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/671018/A\\_guide\\_to\\_energy\\_performance\\_certificates\\_for\\_the\\_marketing\\_sale\\_and\\_let\\_of\\_dwellings.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/671018/A_guide_to_energy_performance_certificates_for_the_marketing_sale_and_let_of_dwellings.pdf)

- 3.3.8.** Furthermore, online guidance (<https://epc.opendatacommunities.org/docs/guidance>) also refers to the “total floor area”, which is described as being “the total of all enclosed spaces measured to the internal face of the external walls, i.e. the gross floor area as measured in accordance with the guidance issued from time to time by the Royal Institute of Chartered Surveyors or by a body replacing that institution”. No specific reference is made in respect of garages.
- 3.3.9.** It is also stressed that for new build dwellings the EPC assessor will be unable to physically measure the property as typically the EPC’s will be created prior to the construction of the unit. The EPC assessor will therefore look to measure “off plan” when considering new builds.
- 3.3.10.** Notwithstanding this, the relevant RICS Standard is the “RICS Property Measurement” 2<sup>nd</sup> Edition (Jan 2018). The equivalent current standard to what was previously assessed as gross internal area is the “IPMS2 – residential”<sup>5</sup>. Para 4.2.4 refers to Diagram 25 which “...show the IPMS 2 – Residential for residential apartments and dwellings respectively; those areas coloured on the plans show the elements included in the measurement”. For ease of reference the Diagram shown is as follows:

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<sup>5</sup> <https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/real-estate/rics-property-measurement/rics-property-measurement-2nd-edition-rics.pdf>



**Diagram 25: IPMS 2 – residential dwelling**

**3.3.11.** As shown above, the standard is therefore akin to a gross internal area. It is noted that the garages are coloured therefore in accordance with para 4.2.4 the garages are included in the measurement.



**3.3.12.** The RICS guidance for measurement, to which the “total floor area” calculated when assessing an EPC is technically meant to mirror, shows that garages should be included.

**3.3.13.** However, we acknowledge that from our research some early guidance for preparing EPC Registers suggests that integral / detached garages should be excluded from the “total floor area” calculation because they do not contain a heat source.

**3.3.14.** To investigate this further, we have undertaken some sample measurements of schemes in Durham and compared this to the sizes stated within the corresponding EPC Register. To achieve this, we have reverted to the relevant site plan for the scheme (which will typically state house types) and identified specific plot numbers. Using Nimbus Maps (a google maps based subscription programme) we have then compared these plot numbers to an overhead view of the site that has been constructed, which enables us to identify the property address. We are then able to compare the size of the dwelling as stated by the housebuilder at the planning application stage with the EPC Register size for the corresponding property address. This is a laborious exercise and as such we have looked to provide a sample only from the schemes analysed.

**3.3.15.** The first scheme analysed is Barratt David Wilson Homes “The Drive” scheme at Mount Oswald, Durham. We have identified 20 dwellings within this scheme. The results of the analysis are as follows:

**Table 1: Comparison between The Drive site plan areas and EPC Register areas**

House Type	Plot No.	Plan Sq m		Price	EPC sq m	Diff in size	
H546	51	219	4	WILKINSON WALK	£ 653,995	217	-2
H577-5	38	183	14	RICHARDBY CRESCENT	£ 555,000	183	0
H577-5	19	183	19	RICHARDBY CRESCENT	£ 574,995	183	0
H583-5	12	207	25	RICHARDBY CRESCENT	£ 629,995	207	0
H583-5	43	207	3	WILKINSON WALK	£ 626,500	207	0
SY436	39	166	12	RICHARDBY CRESCENT	£ 519,995	167	1
SY436	35	166	20	RICHARDBY CRESCENT	£ 509,995	167	1
SY436	15	166	31	RICHARDBY CRESCENT	£ 499,995	167	1
SY436	42	166	1	WILKINSON WALK	£ 490,000	167	1
SY436	45	166	7	WILKINSON WALK	£ 520,000	167	1
H586-5	37	233	16	RICHARDBY CRESCENT	£ 609,995	234	1
H586-5	11	233	23	RICHARDBY CRESCENT	£ 664,995	234	1
H586-5	44	233	5	WILKINSON WALK	£ 700,000	234	1
H586-5	46	233	9	WILKINSON WALK	£ 620,000	234	1
H500-X85	10	167	21	RICHARDBY CRESCENT	£ 484,995	169	2
VG533	36	230	18	RICHARDBY CRESCENT	£ 669,995	244	14
VG533	50	230	6	WILKINSON WALK	£ 550,000	244	14
SY536	49	224	8	WILKINSON WALK	£ 609,995	239	15
SY536	47	224	11	WILKINSON WALK	£ 599,995	239	15
VG533	13	230	27	RICHARDBY CRESCENT	£ 669,995	246	16

**3.3.16.** The areas shown in column 3 (under “Plan sq m”) are the areas shown on the site plan which formed part of the planning application. Please note, these figures exclude garages. The figures shown in column 7 (under “EPC sq m”) are shown for that particular dwelling in the EPC Register.

**3.3.17.** As shown above, 15 out of the 20 dwellings show broadly similar sizes between the site plan and the EPC Register. However, for 5 of the dwellings (25%) the EPC Register dwelling size is significantly higher than the corresponding site plan size. We anticipate that this is because in these circumstances the garages have been factored into the overall dwelling size.

**3.3.18.** If the EPC areas are used the average value across the sample equates to £2,861 per sq m. if the site plan areas are adopted the rate increases to £2,910 per sq m (a difference of around £50 per sq m).

**3.3.19.** The second scheme analysed is Persimmon’s “Aykley Woods” scheme at Aykley Heads, Durham. We have identified 27 dwellings within this scheme. The results of the analysis are as follows:

**Table 2: Comparison between Aykley Woods site plan areas and EPC Register areas**

House Type	Plan Plot No.	Plan Sq m	Address	Price	EPC sq m	Diff in size
Greyfriars	30	99	2 MADDISON COURT	£ 219,950	97	-2
Greyfriars	29	99	3 MADDISON COURT	£ 219,950	97	-2
Greyfriars	28	99	4 MADDISON COURT	£ 214,950	97	-2
Greyfriars	27	99	5 MADDISON COURT	£ 219,950	97	-2
Roseberry	34	102	7 MADDISON COURT	£ 299,950	100	-2
Roseberry	33	102	8 MADDISON COURT	£ 299,950	100	-2
Roseberry	32	102	9 MADDISON COURT	£ 304,950	100	-2
Newton	31	161	10 MADDISON COURT	£ 424,950	166	5
Rufford	26	81	11 MADDISON COURT	£ 254,950	79	-2
Rufford	25	81	12 MADDISON COURT	£ 254,950	79	-2
Souter	24	87	14 MADDISON COURT	£ 219,950	85	-2
Souter	23	87	15 MADDISON COURT	£ 214,950	85	-2
Roseberry	21	102	17 MADDISON COURT	£ 292,450	100	-2
Winster	20	118	18 MADDISON COURT	£ 344,950	115	-3
Roseberry	19	102	19 MADDISON COURT	£ 304,950	100	-2
Roseberry	15	102	23 MADDISON COURT	£ 299,950	100	-2
Rufford	14	81	24 MADDISON COURT	£ 239,950	80	-1
Rufford	13	81	25 MADDISON COURT	£ 239,950	80	-1
Rufford	12	81	26 MADDISON COURT	£ 254,950	79	-2
Souter	11	87	27 MADDISON COURT	£ 219,950	85	-2
Souter	10	87	28 MADDISON COURT	£ 219,950	85	-2
Greyfriars	9	99	29 MADDISON COURT	£ 219,950	97	-2
Greyfriars	8	99	30 MADDISON COURT	£ 229,950	97	-2
Souter	7	87	31 MADDISON COURT	£ 219,950	85	-2
Souter	6	87	32 MADDISON COURT	£ 219,950	85	-2
Rufford	5	81	33 MADDISON COURT	£ 254,950	79	-2
Rufford	4	81	34 MADDISON COURT	£ 254,950	79	-2

- 3.3.20.** As shown above, the areas shown are broadly similar between the site plan and the EPC Register (albeit the EPC Register figures are slightly lower within a tolerance of around 2%).
- 3.3.21.** If the EPC areas are used the average value across the sample equates to £2,772 per sq m. If the site plan areas are adopted the rate decreases to £2,722 per sq m (again a difference of around £50 per sq m).
- 3.3.22.** From the sample analysis undertaken the figures shown in the EPC Register are broadly similar to that shown on scheme plans (or at least mostly within an acceptable tolerance).
- 3.3.23.** With respect to the garages, there is some limited evidence of garages being factored into some EPC Register dwelling sizes (which serves to reduce the 'rate per sq m'). However, for other dwellings it appears the garages are being excluded. As such there appears to be a lack of consistency of approach when assessing garages. This can impact on the 'rate per sq m' figures that are identified, as those with garages factored in will have reduced rates per sq m whereas those without garages factored in will have higher rates per sq m (please note this only affects dwelling types which have garages and it is stressed that not all new build dwellings will have garages included).
- 3.3.24.** It is therefore accepted that this is a limitation of the Land Registry / EPC approach. However, as discussed above, when arriving at an average rate per sq m for a general area we looked to adopt mid-range figures, rather than values at the top end of the data range, to mitigate the impact of this type of limitation.

**3.3.25.** By way of an illustration, of the sample of 27 dwellings identified in Ackley Woods the average sales price across the sample (based on the EPC areas) equates to £2,772 per sq m. Likewise, at The Drive, Mount Oswald the average sales value across the sample of 20 dwellings identified (using the EPC areas) equates to £2,861 per sq m. Both locations are situated within what is regarded as a 'highest' value area for the County. In the viability testing our 'highest' value rate that was applied to the modelling equated to £2,500 per sq m, reflecting a circa 10% to 12.5% reduction when compared to the above identified figures.

**3.3.26.** Similarly, we have reviewed values applied in other value locations. In Barnard Castle, which is regarded as a 'high value' location, for example sales evidence from a Taylor Wimpey scheme showed an average of £2,379 per sq m. In our appraisal testing we assumed an average of £2,150 per sq m, reflecting a reduction of around 10%. For 'medium' value locations we applied a rate of £1,900 per sq m, but sales evidence has been identified in excess of this (for example a Persimmon scheme in Chester-le-Street where the average was £2,028 per sq m (a difference of around 6.5%). For the 'low' value locations, the difference is reduced, however (please see below) we have looked to re-run an additional 'low value' model based on reduced sales rates.

**3.3.27.** Furthermore, we note that the Newcastle / Gateshead viability testing adopted the Land Registry / EPC approach, as well as BCIS build cost rates, and no further allowances were applied for garages. Likewise, we also note the recent Market Harborough examination (Inspector’s report released in April 2019). The viability testing undertaken (by Aspinall Verdi) to inform the emerging plan adopted the Land Registry / EPC approach outlined above and for costs assumed lower quartile BCIS rates plus externals at 15%. No additional allowance was made for garages. The Inspector’s report<sup>6</sup> concludes “that the Harborough Local Plan 2011 to 2031 provides an appropriate basis for the planning of the District, provided that a number of main modifications (MMs) are made to it”.

**3.3.28.** In summary, we agree that there are limitations to the Land Registry / EPC approach, with one of the main issues being in relation to consistency with respect to measurement and how garages are factored in by assessors. However, the approach we have adopted, by using relatively cautious rates compared to comparable evidence identified, mitigates the impact that this could have. In this regard, we stand by the approach as being robust.

**3.3.29.** However, Gleeson raised a query in relation to a ‘low cost’ developer product and suggested that their own values achieved can be below £1,750 per sq m in specific locations.

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<sup>6</sup> [file:///C:/Users/CP%20Viability%20Ltd/Downloads/local\\_plan\\_examination\\_report\\_and\\_appendix%20\(2\).pdf](file:///C:/Users/CP%20Viability%20Ltd/Downloads/local_plan_examination_report_and_appendix%20(2).pdf)

**3.3.30.** Recognising this we consider it appropriate to run a ‘low cost’ development sensitivity test (on a sample of typologies). Based on low cost development appraisals we have seen across the north east we consider it appropriate to allow an average sales value of £1,650 per sq m. However, to reflect the low specification of the product we have applied build costs at £850 per sq m (£950 per sq m for bungalows). For externals a 20% rate is applied (as it is being applied to a lower plot construction figure, but externals should be broadly similar from site to site therefore an uplift is appropriate). Also we have assumed professional fees of 5.5% (in line with schemes we have appraised), plus a profit at 20% on revenue (again because this is based on a lower figure).

**3.3.31.** We have re-run our appraisals on the basis of the above and the viability outcomes for 5% affordable dwellings are as follows:

**Table 3: ‘Low-cost’ developer modelling**

Site Type	Value Area	Land	Total Dwellings	BLV	Residual Land Value	Surplus	Surplus % of TLV	Viable?
3	Low	Greenfield	50	£ 361,991	£ 471,348	£ 109,357	30.21%	YES
4	Low	Greenfield	80	£ 579,186	£ 785,734	£ 206,548	35.66%	YES
5	Low	Greenfield	125	£ 961,538	£ 1,292,040	£ 330,502	34.37%	YES
6	Low	Greenfield	200	£ 1,428,571	£ 2,184,222	£ 755,651	52.90%	YES
3	Low	PDL	50	£ 316,742	£ 281,032	£ -35,710	-11.27%	NO
4	Low	PDL	80	£ 506,787	£ 450,716	£ -56,071	-11.06%	NO
5	Low	PDL	125	£ 841,346	£ 828,696	£ -12,650	-1.50%	NO
6	Low	PDL	200	£ 1,250,000	£ 1,481,736	£ 231,736	18.54%	YES

**3.3.32.** The above shows that, with a 5% affordable housing provision, 5 out of the 8 schemes show a surplus and are therefore able to provide some level of S106 contributions (although not at the full policy provision).

**3.3.33.** This is similar to our previous testing for low value schemes, where for the same sample 6 out of the 8 schemes show a surplus and are therefore able to provide some level of S106 contributions.

**3.3.34.** The addition of the low cost developer testing does not therefore significantly impact on the overall viability outcomes, as similar results are shown.

### **3.4. Scheme coverage / capacity**

**3.4.1.** Concerns were raised by stakeholders as to whether the scheme coverage / capacity assumptions were appropriate.

**3.4.2.** In our appraisal testing we assumed an average market value dwelling size of 95 sq m, an affordable dwelling size of 80 sq m and a bungalow of 80 sq m. The overall scheme coverage ranged from 2,850 to 3,325 sq m per net Ha (dependent on the total number of dwellings).

**3.4.3.** We received 4 formal comments from stakeholders post-meeting in relation to coverage (from Miller Homes, Persimmon, Gleeson and Barratts David Wilson Homes). Miller Homes suggested an upper limit of 3,214 sq m per net Ha, Persimmon and Barratts David Wilson considered the overall rates to be reasonable, as did Gleeson (although they suggested that their own product would likely produce different rates).

**3.4.4.** The overall allowance is therefore considered to be reasonable.

**3.4.5.** However, Persimmon did raise a query in relation to size of bungalow and suggested an average allowance of 80 sq m was above expectations. They suggested a reduction to 60 sq m.



**3.4.6.** It is accepted that bungalows can range in size and may be below 80 sq m, particularly if a higher proportion of terraced and semi-detached bungalows are used. In light of this, we consider it appropriate to run an additional sensitivity test incorporating an average bungalow size of 60 sq m, rather than 80 sq m.

**3.4.7.** We have tested a sample of schemes, analysing typologies that were previously viable. This is specifically to test whether this viability outcome changed with the reduction in size of the bungalows.

**Table 4: Reduced bungalows (60 sq m) and 5% affordable housing**

Site Type	Value Area	Affordable	Land	Residual Land Value	Surplus	Viable?	Previous
2	Highest	5%	Greenfield	£ 878,490	£ 28,845	YES	YES
3	Highest	5%	Greenfield	£ 2,802,785	£ 717,427	YES	YES
4	Highest	5%	Greenfield	£ 4,486,379	£ 1,149,806	YES	YES
5	Highest	5%	Greenfield	£ 6,909,007	£ 1,434,017	YES	YES
6	Highest	5%	Greenfield	£ 10,594,356	£ 2,342,613	YES	YES
7	Highest	5%	Greenfield	£ 17,716,664	£ 3,276,114	YES	YES
2	High	5%	Greenfield	£ 491,453	-£ 61,896	NO	NO
3	High	5%	Greenfield	£ 1,744,131	£ 382,755	YES	YES
4	High	5%	Greenfield	£ 2,806,768	£ 628,566	YES	YES
5	High	5%	Greenfield	£ 4,365,309	£ 813,396	YES	YES
6	High	5%	Greenfield	£ 6,703,426	£ 1,308,826	YES	YES
7	High	5%	Greenfield	£ 11,450,455	£ 2,009,905	YES	YES

**Table 5: Reduced bungalows (60 sq m) and 15% affordable housing**

Site Type	Value Area	Affordable	Land	Residual Land Value	Surplus	Viable?	Previous
3	Highest	15%	Greenfield	£ 2,504,722	£ 294,364	YES	YES
4	Highest	15%	Greenfield	£ 4,024,371	£ 487,798	YES	YES
5	Highest	15%	Greenfield	£ 6,166,722	£ 379,232	YES	YES
6	Highest	15%	Greenfield	£ 9,508,003	£ 756,260	YES	YES
7	Highest	15%	Greenfield	£ 15,999,412	£ 683,862	YES	YES
3	High	15%	Greenfield	£ 1,498,741	£ 12,365	YES	YES
4	High	15%	Greenfield	£ 2,426,661	£ 48,459	YES	YES
5	High	15%	Greenfield	£ 3,753,936	-£ 110,477	NO	NO
6	High	15%	Greenfield	£ 5,809,062	-£ 85,538	NO	YES
7	High	15%	Greenfield	£ 10,034,752	-£ 280,798	NO	YES

**3.4.8.** The above shows that if the size of the bungalows reduce the majority of the viability outcomes do not change (only 2 out of the 22 typologies tested change the viability outcome).

**3.4.9.** Furthermore, we would stress that by reducing the size of the bungalows in the above testing we also have reduced the overall coverage / capacity. There is therefore the potential to include more or larger dwellings on the rest of the site to optimise the coverage / capacity of the scheme. This would serve to largely offset any value 'lost' through the smaller size of the bungalows and improve viability.

**3.4.10.** Whilst it is acknowledged that the size of bungalows could vary from our initial assumptions having run the testing this is unlikely to have a significant impact on the overall viability outcome. Furthermore, there would be an opportunity to enhance coverage / capacity elsewhere in the scheme to mitigate any impact. We do not therefore consider that this undermines the overall viability testing.

### **3.5. What is included within the BCIS rates and whether these are too low**

**3.5.1.** Concerns were raised by stakeholders regarding what was included within the BCIS rates and whether the subsequent rates applied in our viability testing were too low.

**3.5.2.** The BCIS website defines the 'rate per sq m' given in their database as follows:

*The cost of the building with preliminaries apportioned, excluding external works, contingencies and design fees. The sample is from actual building contracts and represents a price including the contractors' overheads and profits included in the contract. The buildings sampled represent projects submitted to BCIS and will not necessarily be representative.*

- 3.5.3.** Our understanding is therefore that the rate per sq m includes site preliminaries, contractors overhead and all standard substructure works and superstructure works. This excludes externals, contingency allowances and any abnormal costs.
- 3.5.4.** In terms of the rates applied, the approach is detailed in section 5.7 of our March 2018 study. In short, this is the BCIS median rate for schemes below 50 dwellings and the lower quartile rate for schemes above 50 dwellings.
- 3.5.5.** We received 4 formal comments from stakeholders post-meeting in relation to coverage (from Miller Homes, Persimmon, Gleeson and Barratts David Wilson Homes). Miller Homes, Persimmon and Gleeson agree with the use of the BCIS lower quartile for schemes over 50 dwellings. Barratts David Wilson Homes suggest the BCIS median should apply to all schemes.
- 3.5.6.** Our approach is largely supported through the representations received. Furthermore, we have received no details of plot construction costs.
- 3.5.7.** On this basis, together with previous comments detailed in our March 2018 study, we consider the approach adopted to be reasonable.

### **3.6. External costs and whether the allowances were too low**

- 3.6.1.** Concerns were raised by stakeholders as to whether our allowance of 15% on the BCIS rate applied was too low.
- 3.6.2.** We received 4 formal comments from stakeholders post-meeting in relation to coverage (from Miller Homes, Persimmon, Gleeson and Barratts David Wilson Homes). Miller Homes, Persimmon and Gleeson agree with the use of 15% to cover externals. Our approach is largely supported through the representations received.
- 3.6.3.** Barratts David Wilson Homes, though, suggest this is too low and provide a hand-written note in relation to 5 schemes where the external costs are stated as a rate per sq m. However, details of the plot construction costs are not provided therefore we cannot analyse what the figures are as a percentage of the plot construction costs (in order to undertake a like for like comparison).
- 3.6.4.** Having considered the above, together with previous comments detailed in our March 2018 study, we conclude that the allowance applied is reasonable.

### **3.7. Abnormal costs**

- 3.7.1.** Concerns were raised by stakeholders as to whether our allowance of £75,000 per net Ha for greenfield sites and £150,000 per net Ha for brownfield sites were too low.

- 3.7.2.** We received 6 formal comments from stakeholders post-meeting in relation to coverage (from Miller Homes, Persimmon, Gleeson, Taylor Wimpey, Barratts David Wilson Homes and the Council’s own asset management team).
- 3.7.3.** Evidence from the 5 housebuilders provided shows a range of abnormal costs for sites from circa £247,500 per net Ha up to £517,000 per net Ha. It is clear there are therefore a number of examples that can be provided where abnormal costs are in excess of that allowed for in our appraisal testing.
- 3.7.4.** That said, we anticipate that there are examples where abnormal costs are below this level that have not been provided. In this regard, the Council provides evidence of sites where nil abnormal costs have been incurred. Where abnormal costs have been incurred they also provide evidence for provisions as low as circa £67,000 per net Ha.
- 3.7.5.** For illustrative purposes we have re-run our appraisal typologies with a £300,000 per net Ha abnormal costs allowance applied, to see the impact this could have on scheme viability (if our benchmark land values are retained at the same levels). If 5% affordable housing is applied, the inclusion of abnormal costs at £300,000 per net Ha changes the viability outcome of 7 out of the 56 typologies tested (around 15%). Overall, around 1/3<sup>rd</sup> of the schemes return a viable outcome with abnormal costs at £300,000 per net Ha. Based on 15% affordable housing, the impact is more significant, with 9 out of the 32 typologies tested (around 28%). Overall, only around 15% of the schemes return a viable outcome with abnormal costs at £300,000 per net Ha.

- 3.7.6.** The testing therefore shows that applying significantly higher abnormal costs without adjusting the benchmark land value would, as expected, have a negative impact on the viability outcomes (albeit a number of typologies in the high and highest value areas would still remain viable).
- 3.7.7.** However, we consider this approach to be flawed and do not agree that the abnormal costs should be inflated without any consideration to the benchmark land value. As discussed above in Section 2, the Planning Practice Guidance on viability is clear that the level of abnormal costs must be reflected in the benchmark land value (through a reduction in the premium uplift). As abnormal costs increase, the premium uplift should reduce (the rationale being that the cost burden in relation to abnormal costs should largely be borne by the landowner rather than by a Local Authority through a loss of planning gain).
- 3.7.8.** We demonstrate above in Section 2 that for the purposes of a viability assessment and in the context of the recent North Tyneside examination the benchmark land values applied to our assessment are generous, even with the abnormal costs previously applied (£75,000 per net Ha for greenfield and £150,000 per net Ha for brownfield). If abnormal costs are increased, in accordance with the guidance and again the North Tyneside examination it is appropriate to reduce the benchmark land values (by reducing the premiums applied to the existing use values). This would serve to mitigate the impact of applying higher abnormal costs to the appraisals and the subsequent effect this could have on the viability outcomes.
- 3.7.9.** In summary, we accept that housebuilders are able to clearly demonstrate examples where abnormal costs are above the allowances made in our March 2018 viability study. However, there are also examples where lower abnormal costs have been occurred.

**3.7.10.** Furthermore, and more fundamentally when considering viability, whatever assumptions are made in relation to abnormal costs the guidance is clear that this needs to be balanced against the benchmark land value. If abnormal costs are increased in the modelling, then the guidance states that the benchmark land value must be reduced to counter-balance.

**3.7.11.** Having considered all of the above we stand by our approach in relation to the benchmark land value and abnormal cost assumptions, which if anything we consider to be generous when considered in the context of the North Tyneside examination.

### **3.8. Benchmark Land Value**

**3.8.1.** Concerns were raised by stakeholders as to whether the allowances were too low. It was also requested that we liaise with land agents active in County Durham to establish a ‘tone’ for values.

**3.8.2.** We have been forwarded correspondence from a variety of land agents, with their comments summarised as follows:

- Dacre, Son & Hartley: indicate that they don’t have any current interests in Durham. However, they state that when Craven District Council proposed a rate of circa £740,000 per Ha this “caused something of an uproar and the general consensus amongst agents and landowners was that meddling with markets by local authorities will simply result in land supply drying up”. We cannot, though, attach any weight to this evidence as it is in relation to a different local authority.

- Hellens: they suggest land values should range from £370,000 to £1,480,000 per Ha, after deductions have been made for abnormality, affordable housing and S106 contributions. No evidence is provided to justify this position.
  
- Wisemove: when asked if they consider a range of circa £150,000 to £600,000 per Ha to be appropriate for land values they state, “No chance. A policy of this nature would be short lived, and as someone has previously said, landowners (in a financial position to do so) would simply wait until there was a policy change, as undoubtedly there would be, and this would in fact see fewer sites being brought to the market.” Again no evidence is provided to support this view. However, at the end of the correspondence the writer does state “On the other hand, and without wishing to be flippant, I’m currently selling five sites to Gleeson and on one of them, £60,000 per acre [£148,260 per Ha] would have been delightful!”. This highlights the difficulty of assessing land values and demonstrates that values can be as low as this in certain circumstances.
  
- Knight Frank: state “I think all agents will agree with the earlier comments” in relation to the views expressed above and below.
  
- Buckley Burnett: when asked if they consider a range of circa £150,000 to £600,000 per Ha to be appropriate for land values they state, “No, it will grind to a halt. We have recently done deals on land at net £110k per acre [£271,810 per Ha] in low value areas and net £500k [£1,235,500 per Ha] plus in high value areas. Even in heavily hit areas for s106 and CIL we have achieved £400k per acre net [£988,400]- these were not easy deals to get over the line and further reductions will further restrict development significantly. No specific evidence is provided, though, for analysis.



- Youngs RPS: in response to the correspondence from Wisemove state “Agreed. GB [referring to Wisemove] is right that there are areas in the NE which might fall below those figures – indeed there are some that rise above GCS’ preferred figures – but it is impossible to set rigid parameters especially when the abnormals can never be known between sites. DLT killed the market totally in the late 70s and an approach such as this will kill it again. Most vendors are farmers – admittedly, not all – and they can usually afford to wait given they only get one chance”. Again, no evidence is provided. However, there is an acknowledgement that abnormal costs can cause a significant fluctuation in land values.

**3.8.3.** We have also independently liaised with the following agents:

- Vickers Barrass: When advising a landowner on potential value for their land, generally tend to rely on knowledge of an area and, at an early stage of advice (for example on land with no consent), take into account rough parameters such as the market values of houses in the area and an overview of the site’s potential. Would not be drawn on specific values for the area and unclear how abnormal costs are factored into their early assessment (if at all). Went on to comment that they look to comparables of sales of similar sites to arrive at a valuation and would at a later planning stage take account to some extent of likely developer contributions. Again, unclear whether adjustments are made when considering other land sales to reflect abnormal costs. Furthermore, stated that landowner expectations can vary somewhat, but would be tempered if an option agreement was being entered into and the purchaser was taking the risk on planning.

- J W Wood: stated that when offering land value guidance to clients, they would do a skeleton appraisal and compare this to relevant land sale evidence. Unclear again how abnormal costs / planning policies are being factored into these considerations and therefore whether the clients expectations are being appropriately managed from an early stage.
- George F White: stated that they consider themselves to be conflicted because they are making representations on the Plan to Durham County Council, so are not in a position to get involved in these discussions.

**3.8.4.** There is a clear view from the majority of agents identified above that land values should not be ‘downplayed’ with a concern that this would lead landowners not releasing land for development.

**3.8.5.** Having considered the above we would make the following points:

- (i) The land agents were mostly making reference to market values. Benchmark land value is a distinct concept and separate to market value, as it looks to identify the minimum price that a hypothetical, reasonably minded landowner would accept to release a site for development given the circumstances of that particular site (i.e. abnormal costs, planning policies etc).

- (ii) When advising clients it is apparent that perhaps the most significant consideration for land agents are recent land transactions. However, and from a viability perspective, recent transactional evidence can be misleading and the guidance is clear that an assessor should be careful when looking to land sales evidence. This is because a wide variety of factors impact on the value of a piece of land (e.g. gross to net ratio, planning position, number of dwellings, location, abnormal costs, planning policies etc). Strictly speaking, when comparing sites all of these factors should be fully understood in order that a 'like for like' comparison is made. If not, then there is a risk of under playing / over playing value. For example, taking two identical 1 Ha sites next door to one another. 1 site has abnormal costs of £300,000, the other has nil abnormal costs. The site with no abnormal costs has recently sold for £500,000. When valuing the next door site it would be tempting to adopt the same value. However, as the next door site has abnormal costs of £300,000 this should immediately be deducted from the land value, therefore its value should be £200,000 and not £500,000. The reality of the market is that factors such as abnormal costs are not necessarily reflected fully when sites are compared to one another (most typically because the full details of the transaction won't have been disclosed and therefore cannot be known). This creates an issue when considering viability, as the guidance is clear that these factors must be considered.
- (iii) The views expressed are not supported by firm evidence. However, as indicated above, even if tangible evidence was provided, this would need to be fully analysed and all pertinent factors understood to ensure a 'like for like comparison as per the comments above in section (ii).

- (iv) Section 2 of this report demonstrates that, in the context of the recent North Tyneside examination, the benchmark land values can be regarded as being, if anything, generous for the purposes of viability testing.
- (v) Notwithstanding the above comments, Section 5.15 of our March 2018 report does reference a variety of land transactions as part of the considerations.
- (vi) Furthermore, in March 2018 our sensitivity testing did also re-run the modelling based on a 25% increase in the benchmark land values. We have therefore already tested higher benchmark land values and the impact this could have on viability.

**3.8.6.** Having considered all of the above we stand by our benchmark land values adopted as at March 2018, which are deemed appropriate for the purposes of viability testing.

### **3.9. Developer profit**

- 3.9.1.** Concerns were raised by stakeholders as to whether the allowances were too low.
- 3.9.2.** We received 1 formal comments from Gleeson, who consider an upper end of 15% to 20% to be appropriate.
- 3.9.3.** It is stressed that the Planning Practice Guidance on viability suggests a range for developer's profit from 15% to 20% on revenue. The allowances applied to our viability testing fall within this range and are therefore deemed to be reasonable.

## 4. EVIDENCE UPDATE

### 4.1. Affordable housing tenure mix

- 4.1.1. Our testing in March 2018 was based on a 75/25 mix (or thereabouts) between affordable rent and shared ownership.
- 4.1.2. However, the Council has indicated that its policy provision seeks a 70/30 mix between these tenure bases.
- 4.1.3. We have subsequently re-run a sample of the appraisals, on the assumption on 15% on-site affordable housing (but without any S106 contributions applied).
- 4.1.4. The results are shown below in Table 6:

**Table 6: 70/30 mix between affordable rent and shared ownership (15% affordable)**

Site Type	Value Area	Land	Affordable Rent	SO	Total Dwellings	Original surplus over BLV	Adj surplus %	Change in surplus
3	Highest	Greenfield	5	2	50	67.95%	71.61%	3.66%
4	Highest	Greenfield	8	4	80	67.91%	68.85%	0.94%
5	Highest	Greenfield	13	6	125	55.16%	55.71%	0.55%
6	Highest	Greenfield	22	8	200	60.33%	60.69%	0.36%
7	Highest	Greenfield	37	15	350	53.64%	54.01%	0.37%
3	High	Greenfield	5	2	50	86.79%	91.96%	5.17%
4	High	Greenfield	8	4	80	87.60%	89.06%	1.46%
5	High	Greenfield	13	6	125	74.84%	74.84%	0.00%
6	High	Greenfield	22	8	200	81.00%	81.55%	0.55%
7	High	Greenfield	37	15	350	77.43%	78.01%	0.58%
3	Medium	Greenfield	5	2	50	49.01%	54.94%	5.93%
4	Medium	Greenfield	8	4	80	51.05%	52.89%	1.84%
5	Medium	Greenfield	13	6	125	43.22%	44.29%	1.07%
6	Medium	Greenfield	22	8	200	48.75%	49.45%	0.70%
7	Medium	Greenfield	37	15	350	52.00%	52.74%	0.74%
3	Low	Greenfield	5	2	50	9.59%	16.68%	7.09%
4	Low	Greenfield	8	4	80	13.20%	15.57%	2.37%
5	Low	Greenfield	13	6	125	10.96%	12.34%	1.38%
6	Low	Greenfield	22	8	200	15.84%	15.84%	0.00%
7	Low	Greenfield	37	15	350	25.51%	26.49%	0.98%
3	Highest	PDL	5	2	50	67.94%	71.83%	3.89%
4	Highest	PDL	8	4	80	68.11%	69.16%	1.05%
5	Highest	PDL	13	6	125	55.74%	56.35%	0.61%
6	Highest	PDL	22	8	200	68.64%	69.04%	0.40%
7	Highest	PDL	37	15	350	61.61%	62.03%	0.42%
3	High	PDL	5	2	50	72.31%	77.67%	5.36%
4	High	PDL	8	4	80	73.54%	75.14%	1.60%
5	High	PDL	13	6	125	62.59%	63.53%	0.94%
6	High	PDL	22	8	200	80.26%	80.87%	0.61%
7	High	PDL	37	15	350	77.15%	77.79%	0.64%
3	Medium	PDL	5	2	50	23.22%	29.60%	6.38%
4	Medium	PDL	8	4	80	26.07%	28.19%	2.12%
5	Medium	PDL	13	6	125	21.47%	22.71%	1.24%
6	Medium	PDL	22	8	200	42.42%	43.05%	0.63%
7	Medium	PDL	37	15	350	47.17%	48.04%	0.87%
6	Low	PDL	22	8	200	11.48%	12.79%	1.31%
7	Low	PDL	37	15	350	26.70%	28.16%	1.46%

**4.1.5.** The results show that this marginally improves the outcome (as the overall surplus slightly increases). However, the impact is relatively small (to the most part increasing the surplus by 0% to 2%).

**4.1.6.** In summary, this emerging policy adjustment has a positive, albeit limited, impact on scheme viability.

## **4.2. Accessible and adaptable standards**

**4.2.1.** Our testing in March 2018 was based on up to 40% of the market value dwellings and 90% of the affordable units meeting M4 (2) building regulations standards. Furthermore, it was also assumed that 10% of the affordable units would meeting M4 (3) standards (which was an enhanced, more costly standard).

**4.2.2.** The Council has requested that the modelling is re-tested based on 66% of dwellings meeting the M4 (2) standard and 14% meeting M4 (3).

**4.2.3.** We have subsequently re-run a sample of the appraisals, on the assumption on 15% on-site affordable housing, firstly incorporating the M4 (2) standard to 66% of the dwellings and secondly incorporating M4 (3) at 14%.

**4.2.4.** The results for M4 (2) at 66% are shown below in Table 7. This demonstrates that this only has a marginally negative impact on scheme viability. However, this is not sufficient to change any of the viability outcomes.

**4.2.5.** The results for M4 (3) at 14% are shown below in Table 8. This demonstrates that this has a significant impact on the viability outcomes, as it changes the majority of the previously viable schemes into unviable projects.

**Table 7: M4 (2) applied to 66% of dwellings**

Site Type	Value Area	Land	Total Dwellings	Original surplus over BLV	Original outcome - viable?	M4 (2) 66%	Viable with M4 (2) 66%?
1	Highest	Greenfield	5	£ 72,824	YES	£ 1,214	YES
2	Highest	Greenfield	20	-£ 105,922	NO	£ 3,850	NO
3	Highest	Greenfield	50	£ 227,611	YES	£ 9,462	YES
4	Highest	Greenfield	80	£ 298,022	YES	£ 15,401	YES
5	Highest	Greenfield	125	£ 296,287	YES	£ 23,982	YES
6	Highest	Greenfield	200	£ 490,453	YES	£ 38,503	YES
7	Highest	Greenfield	350	£ 237,212	YES	£ 67,216	YES
1	Highest	PDL	5	£ 42,909	YES	£ 1,214	YES
2	Highest	PDL	20	-£ 132,665	NO	£ 3,850	NO
3	Highest	PDL	50	£ 109,900	YES	£ 9,462	YES
4	Highest	PDL	80	£ 162,870	YES	£ 15,401	YES
5	Highest	PDL	125	-£ 94,866	NO	£ 23,982	NO
6	Highest	PDL	200	£ 500,035	YES	£ 38,503	YES
7	Highest	PDL	350	£ 311,108	YES	£ 67,216	YES
1	High	Greenfield	5	£ 24,136	YES	£ 1,214	YES
2	High	Greenfield	20	-£ 152,972	NO	£ 4,181	NO
3	High	Greenfield	50	£ 209,065	YES	£ 10,453	YES
4	High	Greenfield	80	£ 324,389	YES	£ 16,724	YES
5	High	Greenfield	125	£ 273,679	YES	£ 25,965	YES
6	High	Greenfield	200	£ 624,037	YES	£ 41,811	YES
7	High	Greenfield	350	£ 821,262	YES	£ 73,169	YES
1	High	PDL	5	-£ 13,050	NO	£ 1,214	NO
2	High	PDL	20	-£ 261,423	NO	£ 4,181	NO
3	High	PDL	50	£ 19,471	YES	£ 10,453	YES
4	High	PDL	80	£ 27,794	YES	£ 16,724	YES
5	High	PDL	125	-£ 146,991	NO	£ 25,965	NO
6	High	PDL	200	£ 274,063	YES	£ 41,811	YES
7	High	PDL	350	£ 265,846	YES	£ 73,169	YES
1	Medium	Greenfield	5	-£ 30,172	NO	£ 1,214	NO
2	Medium	Greenfield	20	-£ 289,240	NO	£ 4,517	NO
3	Medium	Greenfield	50	-£ 261,320	NO	£ 11,123	NO
4	Medium	Greenfield	80	-£ 382,951	NO	£ 18,068	NO
5	Medium	Greenfield	125	-£ 712,772	NO	£ 27,977	NO
6	Medium	Greenfield	200	-£ 972,920	NO	£ 45,169	NO
7	Medium	Greenfield	350	-£ 1,252,163	NO	£ 79,214	NO
1	Medium	PDL	5	-£ 65,027	NO	£ 1,214	NO
2	Medium	PDL	20	-£ 354,712	NO	£ 4,517	NO
3	Medium	PDL	50	-£ 411,521	NO	£ 11,123	NO
4	Medium	PDL	80	-£ 689,973	NO	£ 18,068	NO
5	Medium	PDL	125	-£ 1,150,766	NO	£ 27,977	NO
6	Medium	PDL	200	-£ 1,326,129	NO	£ 45,169	NO
7	Medium	PDL	350	-£ 2,074,144	NO	£ 79,214	NO
1	Low	Greenfield	5	-£ 61,119	NO	£ 1,214	NO
2	Low	Greenfield	20	-£ 346,965	NO	£ 4,858	NO
3	Low	Greenfield	50	-£ 308,752	NO	£ 12,144	NO
4	Low	Greenfield	80	-£ 487,245	NO	£ 19,430	NO
5	Low	Greenfield	125	-£ 802,399	NO	£ 30,017	NO
6	Low	Greenfield	200	-£ 1,196,606	NO	£ 48,233	NO
7	Low	Greenfield	350	-£ 1,718,610	NO	£ 85,008	NO
1	Low	PDL	5	-£ 111,612	NO	£ 1,214	NO
2	Low	PDL	20	-£ 354,906	NO	£ 4,858	NO
3	Low	PDL	50	-£ 550,320	NO	£ 12,144	NO
4	Low	PDL	80	-£ 864,834	NO	£ 19,430	NO
5	Low	PDL	125	-£ 1,358,971	NO	£ 30,017	NO
6	Low	PDL	200	-£ 1,737,695	NO	£ 48,233	NO
7	Low	PDL	350	-£ 2,626,349	NO	£ 85,008	NO



**Table 8: M4 (3) applied to 14% of dwellings**

Site Type	Value Area	Land	Total Dwellings	Original surplus over BLV	Original outcome - viable?	M4 (3) 14%	Surplus with M4 (3)	Viable with M4 (3) 14%?
1	Highest	Greenfield	5	£ 72,824	YES	£ 23,828	£ 47,781	YES
2	Highest	Greenfield	20	-£ 105,922	NO	£ 92,981	-£ 202,753	NO
3	Highest	Greenfield	50	£ 227,611	YES	£ 232,064	-£ 13,915	NO
4	Highest	Greenfield	80	£ 298,022	YES	£ 371,924	-£ 89,303	NO
5	Highest	Greenfield	125	£ 296,287	YES	£ 580,937	-£ 308,632	NO
6	Highest	Greenfield	200	£ 490,453	YES	£ 929,810	-£ 477,860	NO
7	Highest	Greenfield	350	£ 237,212	YES	£ 1,626,779	-£ 1,456,783	NO
1	Highest	PDL	5	£ 42,909	YES	£ 23,828	£ 17,867	YES
2	Highest	PDL	20	-£ 132,665	NO	£ 92,981	-£ 229,496	NO
3	Highest	PDL	50	£ 109,900	YES	£ 232,064	-£ 131,626	NO
4	Highest	PDL	80	£ 162,870	YES	£ 371,924	-£ 224,455	NO
5	Highest	PDL	125	-£ 94,866	NO	£ 580,937	-£ 699,785	NO
6	Highest	PDL	200	£ 500,035	YES	£ 929,810	-£ 468,278	NO
7	Highest	PDL	350	£ 311,108	YES	£ 1,626,779	-£ 1,382,887	NO
1	High	Greenfield	5	£ 24,136	YES	£ 23,828	-£ 907	NO
2	High	Greenfield	20	-£ 152,972	NO	£ 93,758	-£ 250,911	NO
3	High	Greenfield	50	£ 209,065	YES	£ 234,395	-£ 35,783	NO
4	High	Greenfield	80	£ 324,389	YES	£ 375,032	-£ 67,367	NO
5	High	Greenfield	125	£ 273,679	YES	£ 585,599	-£ 337,885	NO
6	High	Greenfield	200	£ 624,037	YES	£ 937,580	-£ 355,354	NO
7	High	Greenfield	350	£ 821,262	YES	£ 1,640,765	-£ 892,672	NO
1	High	PDL	5	-£ 13,050	NO	£ 23,828	-£ 38,092	NO
2	High	PDL	20	-£ 261,423	NO	£ 93,758	-£ 359,362	NO
3	High	PDL	50	£ 19,471	YES	£ 234,395	-£ 225,377	NO
4	High	PDL	80	£ 27,794	YES	£ 375,032	-£ 363,962	NO
5	High	PDL	125	-£ 146,991	NO	£ 585,599	-£ 758,555	NO
6	High	PDL	200	£ 274,063	YES	£ 937,580	-£ 705,328	NO
7	High	PDL	350	£ 265,846	YES	£ 1,640,765	-£ 1,448,088	NO
1	Medium	Greenfield	5	-£ 30,172	NO	£ 23,828	-£ 55,214	NO
2	Medium	Greenfield	20	-£ 289,240	NO	£ 94,535	-£ 388,292	NO
3	Medium	Greenfield	50	-£ 261,320	NO	£ 235,949	-£ 508,392	NO
4	Medium	Greenfield	80	-£ 382,951	NO	£ 378,140	-£ 779,159	NO
5	Medium	Greenfield	125	-£ 712,772	NO	£ 590,261	-£ 1,331,010	NO
6	Medium	Greenfield	200	-£ 972,920	NO	£ 945,350	-£ 1,963,439	NO
7	Medium	Greenfield	350	-£ 1,252,163	NO	£ 1,654,751	-£ 2,986,128	NO
1	Medium	PDL	5	-£ 65,027	NO	£ 23,828	-£ 90,069	NO
2	Medium	PDL	20	-£ 354,712	NO	£ 94,535	-£ 453,764	NO
3	Medium	PDL	50	-£ 411,521	NO	£ 235,949	-£ 658,593	NO
4	Medium	PDL	80	-£ 689,973	NO	£ 378,140	-£ 1,086,181	NO
5	Medium	PDL	125	-£ 1,150,766	NO	£ 590,261	-£ 1,769,004	NO
6	Medium	PDL	200	-£ 1,326,129	NO	£ 945,350	-£ 2,316,648	NO
7	Medium	PDL	350	-£ 2,074,144	NO	£ 1,654,751	-£ 3,808,109	NO
1	Low	Greenfield	5	-£ 61,119	NO	£ 23,828	-£ 86,161	NO
2	Low	Greenfield	20	-£ 346,965	NO	£ 95,312	-£ 447,135	NO
3	Low	Greenfield	50	-£ 308,752	NO	£ 238,280	-£ 559,176	NO
4	Low	Greenfield	80	-£ 487,245	NO	£ 381,248	-£ 887,923	NO
5	Low	Greenfield	125	-£ 802,399	NO	£ 594,923	-£ 1,427,339	NO
6	Low	Greenfield	200	-£ 1,196,606	NO	£ 952,343	-£ 2,197,182	NO
7	Low	Greenfield	350	-£ 1,718,610	NO	£ 1,667,960	-£ 3,471,578	NO
1	Low	PDL	5	-£ 111,612	NO	£ 23,828	-£ 136,654	NO
2	Low	PDL	20	-£ 354,906	NO	£ 95,312	-£ 455,076	NO
3	Low	PDL	50	-£ 550,320	NO	£ 238,280	-£ 800,744	NO
4	Low	PDL	80	-£ 864,834	NO	£ 381,248	-£ 1,265,512	NO
5	Low	PDL	125	-£ 1,358,971	NO	£ 594,923	-£ 1,983,911	NO
6	Low	PDL	200	-£ 1,737,695	NO	£ 952,343	-£ 2,738,271	NO
7	Low	PDL	350	-£ 2,626,349	NO	£ 1,667,960	-£ 4,379,317	NO

**4.2.6.** In summary, we conclude that the emerging policy of applying the M4 (2) standard to 66% of dwellings will have a slightly negative impact on viability, but not to the extent to change any viability outcomes. However, the introduction of M4 (3) to 14% of dwellings would have a significant impact, to the extent where it could undermine the viability for a wide range of schemes (and therefore undermine deliverability).

### **4.3. Health**

**4.3.1.** The Council has advised that there is an emerging policy in relation to health contributions (to be collected through a S106 mechanism). The total contribution is £100 per dwelling.

**4.3.2.** Our viability testing from March 2018 did not explicitly include an allowance for health contributions. We have subsequently looked to include an additional allowance of £100 per dwelling to assess the impact this could have on scheme viability.

**4.3.3.** Having re-run the assessments with an additional £100 per dwelling included for health the viability outcomes do not change for any of the typologies (i.e. those already unviable remain so but those that were previously viable remain viable).

**4.3.4.** The impact of the health contribution is therefore minimal and unlikely to have a significant impact on overall scheme viability. However, it is stressed that our original report concluded that S106 contributions should be sought between a range of £5,000 to £7,000 per dwelling in total (to achieve the suggested affordable housing provisions). This conclusion remains therefore the requirement for a health contribution would need to fall within these parameters.

#### 4.4. Specialist housing

- 4.4.1.** Our testing in March 2018 included appraisals based on apartment schemes for older households (typically delivered by developers such as McCarthy & Stone, Churchill and Pegasus, as well as Registered Providers with a development arm such as Anchor, Housing 21 or ISOS).
- 4.4.2.** We ran 2 models, the first being based on ‘retirement living’ (some shared common rooms and limited on-site staff) and ‘assisted living’ (providing more on-site services and staff). These were tested in higher value locations on the basis that it was considered most likely that schemes of this nature would be brought forward in higher value areas. For retirement living, our initial testing (which excluded affordable housing / S106 contributions) generated a surplus of £352,459 above the benchmark land value (which could be used towards affordable housing / S106 contributions). For the assisted living model the surplus was slightly lower at £292,350. We subsequently concluded that the schemes could viably support an affordable housing / S106 contributions ranging from £3,000 to £4,000 per dwelling.
- 4.4.3.** The Council has indicated that the emerging policy is for 100% of specialist housing to meet the M4 (2) building regulations standard, plus 25% to meet the M4 (3) standard.
- 4.4.4.** Our original assessment assumed that 100% of the dwellings would be M4 (2) compliant, therefore no further testing is required to meet this standard. However, our original appraisal testing did not include any allowances to meet the M4 (3) standard. We have subsequently re-run the modelling on the basis that 25% of the dwellings meet the M4 (3) standard.

- 4.4.5.** For the retirement living model, if the M4 (3) standard is incorporated to 25% of the dwellings the scheme still generates a surplus above the benchmark land value. However, this surplus reduces from £352,459 to £91,990.
- 4.4.6.** Likewise, for the assisted living typology, with the M4 (3) standard applied to 25% of the dwellings a surplus is produced. However, this is only a nominal sum, being £31,881 (reduced from £292,350 is the M4 (3) requirement is removed).
- 4.4.7.** In summary, if the M4 (3) standard is applied to 25% of the dwellings the schemes still produce a surplus above the benchmark land value (which could be put towards an off-site affordable housing contribution or other S106 policy requirements). However, the amount that can be contributed reduces significantly to around £700 to £2,000 per dwelling.

## 5. CONCLUSIONS

**5.1.** This addendum report has considered the following since our initial plan viability testing was undertaken in March 2018:

- (i) Changes in government policy through the introduction of the NPPF and Planning Practice Guidance on viability (both published in July 2018).
- (ii) Challenges raised by stakeholders in relation to the viability testing assumptions.
- (iii) Amendments to emerging policies.

**5.2.** With respect to the changes to government policy, our original testing undertaken in March 2018 is considered to be mostly compliant with the new guidance.

**5.3.** One key change, though, relates to the definition of affordable housing, with a greater focus on affordable home ownership, rather than rented products. Our original testing, though, considers this through a sensitivity testing on 'Starter Homes' therefore no further testing is deemed necessary.

**5.4.** Furthermore, the guidance defined a clearer approach to determining benchmark land value (a key aspect of viability testing). The guidance sets out a clear methodology for assessing the benchmark land value (existing use value plus premium) and also stresses the key factors that need to be considered when arriving at suitable values. Our original testing is considered to have followed the approach now set out in the guidance. However, having reviewed the adopted figures (and in light of the recent North Tyneside CIL examination) the values adopted (and more specifically the premium uplifts applied) appear generous.

**5.5.** As for stakeholder challenges, a number of queries were raised with the most significant being

- Approach to determining sales values (Land Registry and EPC method) and whether garages have been appropriately accounted for in the assumptions.
- Abnormal costs. Agreement that these will fluctuate from site to site, however stakeholders considered that the ‘spot allowance’ was significantly lower than their own typical experiences. Consideration to be given about the balance between land values and abnormal.
- Benchmark land values to be reconsidered and views from land agents sought.

**5.6.** Having reviewed the Land Registry / EPC approach adopted (and applying average rates rather than figures at the extreme of the range identified), as well as the application of the BCIS costs, we are satisfied that this is an appropriate approach for plan viability testing, without the need for further allowances to account for garages (in line with other recent viability work accepted through examination).

**5.7.** However, we accepted the need for further testing of a ‘low-cost’ developer model, as suggested by Gleeson in their stakeholder responses, which has now been undertaken.

- 5.8.** With regard to benchmark land values and abnormal costs, both are interlinked. The higher the abnormal costs the lower the benchmark land value and vice versa. Having reviewed the guidance and previous approach adopted, we conclude that, if anything the allowances are generous when considered in a viability context. Whilst we re-ran some modelling based on higher abnormal costs we do not consider this approach to be appropriate, as the benchmark land values should be reduced to reflect the increased abnormal costs (offsetting the impact of the abnormal costs on the viability outcome). We therefore stand by our original approach as being reasonable for the purposes of viability testing (and if anything on the generous side, particularly when considered against the recent North Tyneside examination).
- 5.9.** We have also liaised with land agents with respect to land values. However, what is clear is that land agents focus on market value, which is a different concept to a benchmark land value. The guidance is clear that the principal approach for determining the benchmark land value is to consider the existing use value plus a premium incentive. This is not an approach used by land agents when advising clients. Furthermore, it is clear that when determining land values the main focus appears to be on recent land transactions, rather than undertaking a detailed residual appraisal. From a viability perspective this approach is less satisfactory, given the wide number of factors which can impact on land value. Typically, the full details of land price are not known therefore it is difficult to ensure a 'like for like' comparison (which is vital when considering viability). Having considered these points we stand by our benchmark land value allowances as being reasonable for the purposes of viability testing.
- 5.10.** For changes to emerging policies we have undertaken additional testing regarding affordable housing tenure mix, accessible and adaptable standards, health contributions and specialist housing.

- 5.11.** The amendments to the affordable housing tenure mix marginally improves viability, whilst the emerging M4 (2) policy and health contributions each have a slightly negative impact on the viability outcome.
  
- 5.12.** However, the introduction of M4 (3) to 14% of dwellings would have a significant impact, to the extent where it could undermine the viability for a wide range of schemes (and therefore undermine deliverability).