

**NORTHUMBERLAND LOCAL  
PLAN DRAFT CORE STRATEGY  
AND COMMUNITY  
INFRASTRUCTURE LEVY  
VIABILITY ASSESSMENT:**

**Draft Final Report**

**JUNE 2016**



# FOREWORD

This report has been prepared by Northumberland County Council. It provides an updated Viability Assessment of the emerging Northumberland Local Plan Core Strategy. It follows earlier reports prepared to support previous iterations of the emerging Core Strategy. The report has been prepared having regard to representations received in response to previous consultation; additional evidence collected in support of the Assessment; and professional advice commissioned by the County Council to support the Assessment and its findings.

The Assessment is deliberately high level and considers the impact on development viability of implementing the Core Strategy rather than the viability of any individual site. The Assessment has regard to the County Council's intention to introduce a Community Infrastructure, where economically viable, following adoption of the Core Strategy.

Its limitations as an area wide assessment should be noted and the Assessment should not be relied upon when considering the viability of development on individual sites as it is not appropriate for such purposes. Assessing the potential viability of plan policies does not take the same form nor share the same set of assumptions as a site-specific development appraisal.

Professional advice, guidance and critical review has been provided to support the County Council in undertaking this Viability Assessment from chartered surveyors at the District Valuer Service .

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# Executive Summary

This Northumberland Local Plan Draft Core Strategy and Community Infrastructure Levy Viability Assessment Draft Final Report captures the findings of an iterative process, which has, and will continue to inform preparation of the emerging Northumberland Local Plan Core Strategy. It has been prepared with the additional intention of informing decisions regarding the introduction of a Community Infrastructure Levy in Northumberland.

Viability Assessment is a means of testing whether planning policies and plan objectives are realistic, whether they are likely to be deliverable, and more particularly that development would remain economically 'viable' following the introduction of the planning policies.

Demonstrating viability of a Local Plan is a key requirement of the National Planning Policy Framework. In order for a Local Plan as a whole to be judged as being appropriate, the cumulative impact of planning policies, standards and requirements should not put implementation of the plan at serious risk.

The Viability Assessment process has followed available guidance and best practice. The approach adopted, including the collection of evidence, has been effective and importantly proportionate.

Rather than testing the viability of every site likely to come forward over the plan period up to 2031, the Assessment tests types of development. The outcome is a high level appraisal of both residential and commercial development types which are expected to come forward in Northumberland, accounting for the key factors which influence viability.

The Assessment adopts what is referred to as a 'Residual Land Value' calculation. In simple terms the costs and value of development are input into an equation. The output is the amount left over, or 'residue', which should be available to pay for the land. This is compared against calculated 'threshold' or 'benchmark' land values to determine the likelihood of development happening under normal reasonable circumstances. If there is insufficient value in a development to provide competitive returns for developers and landowners, development may be considered to be unviable.

The inputs into the residual land value equation i.e. the costs and values of development, and the threshold and benchmark land values against which outputs are tested, are based on the available evidence, the input of stakeholders, and professional judgement. They represent informed assumptions about what are 'norms' or 'averages' or what would typically be expected.

A sense check to the findings has been demonstrated by means of a small sample of site specific viability appraisals of 'real world' potential development sites and through analysis of the real market value of land.



The Assessment findings demonstrate a number of key viability issues including:

- The varying values of residential development across the County;
- The key challenges to residential development viability in low value areas and to commercial development in the short to medium term;
- The positive viability of residential development in high and highest value areas;
- That there is scope for a Community Infrastructure Levy in some areas and for certain types of development.

What is also evident in the Viability Assessment is:

- The impact of minor variations to key assumptions in the residual land value calculation on the outcome of the equation as demonstrated through various sensitivity tests; and
- The disconnect between the viability assessment findings and what is being delivered.

The Assessment concludes that the Northumberland Local Plan Draft Core Strategy is viable. The cumulative impact of the standards and policies proposed in the emerging Core Strategy and other relevant extant policies in the development plan would not put implementation of the Core Strategy at serious risk.

# 1 INTRODUCTION

- 1.1 The term 'viability' in the context of this Assessment refers to the economic viability of new development. Put simply, it is about whether the end value of development sufficiently exceeds the costs of implementing the development, including the cost of building and land, to mean that development will happen.
- 1.2 This Viability Assessment provides an area based appraisal of the economic viability of the emerging Core Strategy as a whole. It takes account of the costs associated with policies proposed in the Core Strategy on development in the County. The Assessment also considers the scope for the introduction of a Community Infrastructure Levy Charge.

## **Purpose of the Viability Assessment**

- 1.3 Assessing viability is an important part of the plan making process. Understanding and testing the viability of a development plan is a requirement of national planning policy<sup>1</sup>. It is also a requirement of legislation and guidance governing the introduction of a Community Infrastructure Levy (CIL), and is a factor in undertaking the Strategic Housing Land Availability Assessment which supports the Core Strategy. In each case requirements are slightly different but all have much in common: overall, testing viability is central to ensuring that a development plan and its strategy for an area are 'deliverable'.
- 1.4 This Viability Assessment serves to check that the costs of any requirements to be applied to development in Northumberland arising from policies in the development plan, such as for affordable housing or infrastructure, do not threaten development being delivered whilst ensuring competitive returns to willing land owners and developers.
- 1.5 In accordance with National Planning Practice Guidance (NPPG) (Paragraph: 005 Reference ID: 10-005-20140306) it: *'...does not seek to compromise the quality of development but is a tool to ensure the plan is realistic'*.

## **An iterative process**

- 1.6 Viability Assessment of the impact of policies and proposals contained in the emerging Core Strategy is not a one-off exercise. Instead, it is a process that runs in parallel with the preparation of the Core Strategy and has informed its policies and proposals. The approach employed follows guidance established in NPPG which requires that: *'Development of plan policies should be iterative – with draft policies tested against*

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<sup>1</sup> Paras 173 and 174 of the National Planning Policy Framework

*evidence of the likely ability of the market to deliver the plan's policies, and revised as part of a dynamic process.'* (Paragraph: 005 Reference ID: 10-005-20140306)

1.7 The process has a number of key roles including:

- Providing a structured and transparent tool for understanding and testing the viability and deliverability of the Core Strategy;
- Informing balances and trade-offs between what is wanted and what is achievable; and
- Improving partnership working and shared understanding of the interests, objectives and constraints facing different parties involved in delivering the objectives, policies and proposals contained in the Core Strategy.

### **Outputs**

1.8 The outputs of this Viability Assessment process, are in two parts:

- the first being this report which details the testing of the cumulative impact of the policies and objectives of the Core Strategy on viability; and
- the second being a further testing of the introduction of a Community Infrastructure Levy charge, which will underpin any future CIL Charging Schedule.

## **Background**

### **Policy Context**

1.9 The principles and requirements for assessing viability in plan making are evident in a range of policies, regulations and guidance at a national level. Foremost, the National Planning Policy Framework (NPPF) places an emphasis upon ensuring a realistic approach to plan making that supports development and promotes economic growth.

1.10 Paragraph 173 of the NPPF states '*...the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable*'.

1.11 Paragraph 174 of NPPF states: '*Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing*

*and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.'*

1.12 NPPG expands upon the issues of viability raised in the NPPF. It states: '*Understanding Local Plan viability is critical to the overall assessment of deliverability. Local Plans should present visions for an area in the context of an understanding of local economic conditions and market realities. This should not undermine ambition for high quality design and wider social and environmental benefit but such ambition should be tested against the realistic likelihood of delivery.*' (Paragraph: 001 Reference ID: 10-001-20140306)

1.13 NPPG does not prescribe how to assess viability but instead identifies the principles that should underpin consideration of viability. In essence, NPPG promotes developing a comprehensive understanding of viability across a local authority area, which is informed by:

- relevant available facts;
- working in partnership with relevant stakeholders to improve understanding of deliverability and viability; and
- ensuring a consistent approach to testing viability across a development plan's evidence base.

### **Infrastructure and the Community Infrastructure Levy (CIL)**

1.14 The power to introduce a CIL charge came into force in April 2010. It is a mechanism Local Authorities can choose to introduce to secure funding towards infrastructure. In effect it is a local tax on new development. The CIL takes the form of a charge levied per square metre (£m<sup>2</sup>) on the gross internal floor space developed. The level of charge is known as the charging rate.

1.15 There are separate regulations and guidelines that govern the CIL and how the levy can be set. The Community Infrastructure Levy Regulations 2010 (as amended) require that in setting rates a charging authority must strike an appropriate balance between:

- (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and

(b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

- 1.16 The clear parallels between assessing the viability of the Core Strategy and assessing the viability of introducing a Community Infrastructure Levy are recognised in the NPPF. It sets out that: *‘Where practical, Community Infrastructure Levy charges should be worked up and tested alongside the Local Plan’* (paragraph 175).
- 1.17 In this context, the Viability Assessment of the Northumberland Core Strategy was extended to include testing the impact of a CIL Charge. The Northumberland Infrastructure Delivery Plan identifies what infrastructure is required to deliver the level and location of development proposed in the Core Strategy. Infrastructure is taken to mean structures, services and facilities such as roads and other transport facilities; flood defences; schools and other educational facilities; medical facilities; sporting and recreational facilities; and open spaces.
- 1.18 In planning for infrastructure to meet development related needs, the NPPF requires local planning authorities to demonstrate that there is a reasonable prospect that the required infrastructure is deliverable in a timely manner. This includes identifying how infrastructure will be funded. The Infrastructure Delivery Plan prepared to support the Core Strategy identifies that there is residual a funding gap. The Council therefore plans to become a CIL Charging Authority.
- 1.19 CIL can provide funding for infrastructure to support the development of the whole area covered by the Core Strategy. More site specific issues or mitigation, and affordable housing, will continue to be addressed through planning obligations and planning conditions, which may continue to be attached to a planning permission.
- 1.20 The precise costs of more site specific infrastructure requirements are generally not identified in the Infrastructure Delivery Plan other than in certain circumstances where they relate to a strategic scale site. Nevertheless, the combined cost of developer contributions secured through both the potential CIL and planning obligations have been factored into this Viability Assessment.
- 1.21 Whilst this Viability Assessment provides evidence for the creation of a CIL in Northumberland, any precise CIL charges will be subject to further assessment. The development of a CIL Charging Schedule will be subject to additional consultation processes under the relevant Regulations.

## **Other purposes of the Viability Assessment**

- 1.22 The Viability Assessment will also be used to inform any future planning policy documents including those that may allocate land for development or those that create development management policies.

- 1.23 The Council has a statutory role in supporting and advising town and parish councils which are preparing neighbourhood plans. The Viability Assessment will therefore also be shared with those councils to promote the importance of understanding viability matters. The Council will provide advice and support to help ensure neighbourhood plans can similarly be demonstrated to be viable.
- 1.24 There are a number of town and parish council's currently progressing neighbourhood plans in Northumberland. A summary guide has been produced for town and parish councils which encourages making use of the Viability Assessment of the Core Strategy and CIL, and the evidence which underpins it.

## Scope and Limitations

- 1.25 It is important to acknowledge the scope and limitations of a 'whole plan' Viability Assessment and to recognise that viability assessment is not a precise science.
- 1.26 The Assessment has only tested the broad viability of the emerging Core Strategy. The work undertaken has generally followed advice set out in The Local Housing Delivery Group report 'Viability Testing Local Plans: Advice for Planning Practitioners'<sup>2</sup> commonly referred to as the 'Harman Guidance'. This advises that: *'It is important to keep in mind that assessing the potential viability of plan policies will not take the same form nor share the same set of assumptions as a site-specific development appraisal'* (page 25). The NPPF does not require a viability assessment of every development scheme likely to come forward over the plan period. The Viability Assessment is therefore largely predicated on evidence based assumptions about what are norms and what is reasonably representative.
- 1.27 There may be sites for which specific circumstances render a particular development unviable given the policies of the Core Strategy, even though the policies have been demonstrated to be viable in this Assessment. Conversely there will be schemes which are more viable than assumed. Particular circumstances may result in much lower costs or much higher values, and therefore deliver more profitable development than is assumed in this Assessment.
- 1.28 The fact that Northumberland is a large and diverse county must also be recognised. There are a diverse range of developments anticipated to come forward over the plan period. There are also varying development economics operating in different parts of the county. Although the Assessment takes account of a wide range of developments and variations at a localised level, in accordance with the available guidance, it

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<sup>2</sup> Viability Testing Local Plans: Advice for Planning Practitioners Local Housing Delivery Group chaired by Sir John Harman (June 2012)

necessarily adopts a proportionate and practicable approach, within the confines of available resources.

- 1.29 There is a wide range of evidence, guidance and professional judgement that underpins the assumptions and inputs in the Viability Assessment. However, some evidence is difficult to source and more frequently contested. Furthermore, the Viability Assessment is based on the evidence available at a particular point in time. The accuracy of assumptions and inputs predictably will diminish in the longer term towards the end of the plan period. The Core Strategy Implementation and Monitoring Framework will be important in this regard.
- 1.30 Consultation on the Assessment as it has developed has ensured that stakeholders have had an opportunity to input to the Viability Assessment process at several stages. Stakeholders will have a range of perspectives and have different objectives. While there are benefits in working collaboratively, there are issues on which it is difficult or not possible to reach agreement. In this regard it should be noted that it is not the intention to imply that full agreement has been reached with stakeholders on all inputs and assumptions used in the Viability Assessment. Where consultees disagreed with assumptions and inputs or raised concerns, the Council has investigated matters further and collected additional evidence to justify the approach taken in the Assessment. However, it is anticipated that there will remain areas of divergence in relation to the assumptions adopted and the evidence collected to support this Assessment.

## **Scrutiny, Review and Support**

- 1.31 Preparation of the Viability Assessment has been supported through critical review and through analysis of outputs from modelling exercises undertaken to determine development viability by the County Council's advisors: the District Valuer Service (DVS). The DVS has been employed at several stages during preparation of the Assessment and, in addition to reviewing work undertaken by the County Council, has undertaken a significant amount of scenario and site specific modelling to help inform the outcomes of the Assessment. The DVS has also provided an evidence based report to support conclusions on appropriate Threshold Land Values applied in modelling work that supports the Viability Assessment. Their work is presented in a number of separate reports all of which are published in support of this Assessment. The DVS reports are as follows:
- 'Undertaking of 4 Site Development Appraisals' (September 2015)
  - 'Analysis of Northumberland Threshold Land Values' (September 2015)
  - 'Hypothetical Site Types – Development Appraisals' (May 2016)

- 'Real Site Types – Development Appraisals' (June 2016)



## 2 THE PRINCIPLES OF THE APPROACH

2.1 The Viability Assessment of the Core Strategy has been undertaken in direct accordance with the underlying principles of understanding viability in planning, as identified in NPPG by using:

- Evidence based judgement;
- Collaboration with relevant partners; and
- A consistent approach.

2.2 The specific principles underpinning the Viability Assessment described further in Appendix A, are as follows:

- The Viability Assessment is underpinned by evidence.
- The preparation of the Viability Assessment has been an iterative exercise and has been integral to informing the emerging Core Strategy.
- The Assessment considers the viability of the emerging Core Strategy as a whole.
- Engagement and collaboration has been a key factor in the preparation of the Viability Assessment.
- The preparation of the Viability Assessment has been proportionate and practical.
- Best practice and guidance underpin the Viability Assessment.
- The Viability Assessment process has been subject to independent scrutiny and review by appropriately qualified professional advisors who have applied professional judgement in validating the findings of the Assessment.

## 3 METHODOLOGY

### Project Management

- 3.1 At the start of the preparation of the Viability Assessment a project team was established, led by the Council's Strategic Planning and Housing Team. This included Chartered Surveyors from the Council's Strategic Estates Service. The Council is a major landowner and officers therefore have first-hand experience of the Northumberland development market. The project team also comprised: Chartered Planners with knowledge and expertise in Northumberland planning and development matters; and Housing Officers, including those with recent relevant experience in the private and social housing sectors, and Officers directly involved with delivering the Council's Affordable Housing Programme.

### The Northumberland Development Viability Panel

- 3.2 The Council sought the involvement of external stakeholders with expertise in the Northumberland development market at the start of the process of preparing the Viability Assessment. Invitations to submit expressions of interest to be part of a Northumberland Development Viability Panel were sent to over 90 stakeholders including: house builders; commercial developers; local estate and land agents; registered social housing providers; planning consultants; and major landowners. The Panel was duly established and first met in October 2013 where terms of reference were agreed. The Panel has been used as a means of engaging with the development industry; testing and validating assumptions employed in preparing the Viability Assessment; and inviting the submission of evidence and representations from the industry to support or critically challenge the Assessment.

### Guidance

- 3.3 NPPG recognises that: *'there is no standard answer to questions of viability, nor is there a single approach for assessing viability'* (Paragraph: 002 Reference ID: 10-002-20140306). However it does provide a range of guidance which is kept up to date, including specific sections on CIL and viability. Other notable guidance that has informed the Viability Assessment includes:

- **Viability Testing Local Plans: Advice for Planning Practitioners (June 2012).** This guidance was produced by the Local Housing Delivery Group, Chaired by Sir John Harman. The Local Housing Delivery Group is a cross-industry group involving a broad group of stakeholders with an interest in home building in England. It was set up in 2011 to respond to the Government's challenge to boost the delivery of new homes, to simplify housing standards where possible, and to support growth

and high standards in home building by helping local authorities and developers find agreed ways in which they can fulfil their obligations under the NPPF. This guidance is referred to throughout the Viability Assessment as ‘The Harman Guidance’.

- **RICS Professional Guidance, England - Financial Viability in Planning (2012).** This guidance was produced by a working group created by the Royal Institution of Chartered Surveyors (RICS) supported by a consultancy team. It seeks to provide a definitive and objective methodology and set of principles that can be applied when considering viability in planning, primarily in development management matters. The guidance acknowledges the need for viability assessment in plan making and defines some differences in approach to be applied compared with site specific viability assessment normally associated with development management. The guidance recognises the emphasis provided in the NPPF on deliverability and the need to ensure competitive returns to willing land owners and developers to enable sustainable development to come forward. This guidance is referred to throughout the Viability Assessment as ‘The RICS Guidance’.

## Methodology

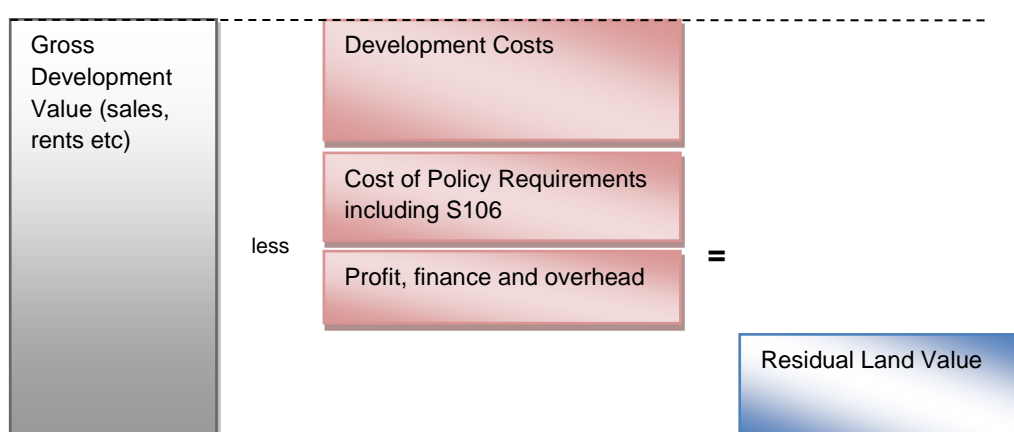
- 3.4 The approach adopted has particularly closely reflected the method advocated in The Harman Guidance. This proposes a five stage assessment process. Each of these steps have been followed in the preparation of the Viability Assessment and can be summarised as follows:
- 3.5 **Step 1: Review existing evidence and consider scope for alignment of assessments.** Appendix A sets out an evidence base review for the Viability Assessment. The review was undertaken at the start of the process. It has helped to identify the scope for alignment of the existing evidence and assessments. Any inconsistencies or outdated viability assumptions within the various components of the evidence base have been addressed as part of the Viability Assessment including the need to take into account up to date intelligence about market conditions as the Assessment emerged.
- 3.6 Key components of the Core Strategy evidence base of particular relevance to the Viability Assessment have been identified through this review. These include:
- The Strategic Housing Land Availability Assessment (SHLAA)– The SHLAA has been critical to determining the nature of residential development likely to come forward. The SHLAA comprises consideration of whether each site is suitable, available and achievable. In light of the Viability Assessment, further information was sought from developers and landowners about the viability of specific sites.

- The Strategic Housing Market Assessment (SHMA) – The SHMA analyses housing needs and market signals and includes an identified need for affordable housing, which has been tested as part of the Viability Assessment.
- The Strategic Land Review (SLR) – the SLR examines a range of issues in respect of main towns and service centres including physical constraints and development opportunities. It is an important part of the evidence base which helps to demonstrate that the Core Strategy is deliverable.
- The Affordable Housing Viability Assessment (2010)–This work tested the viability of different levels of affordable housing across the County. Affordable housing is a key variable that influences the viability of development. The Viability Assessment of the Core Strategy updates that earlier Affordable Housing Viability Assessment. Importantly, it also tests affordable housing targets alongside the other policy requirements of the emerging Core Strategy, and the CIL to consider cumulative effects.

### 3.7 **Step 2: Agree the appraisal methodology, assumptions and information to be used.**

It was agreed through the Northumberland Development Viability Panel that the Viability Assessment should be based upon a 'Residual Land Value' methodology. This is a widely used methodology, which developers often use to assess how much they can pay for land. It is equally suited to assessing broad viability for the purposes of plan making and is the approach advocated in guidance.

### 3.8 Determining 'Residual Land Value' involves calculating the end value of a completed development and then deducting all costs, including profit. The residual amount is the sum left over to pay for land. This equation is illustrated below



**Figure 1 Residual Land Value equation**

### 3.9 In preparing an area based viability assessment to support preparation of a Local Plan the available guidance does not advocate applying the above equation to every development scheme likely to come forward over the plan period. The Viability Assessment is designed to be a high level assessment that serves to demonstrate the

plan as a whole is 'broadly' viable. It is not possible to foresee every development that will occur and its particular circumstances.

- 3.10 In accordance with the principles advocated in the available guidance, the Viability Assessment takes a proportionate and practical approach. Accordingly, it was determined that residential typologies and hypothetical development schemes would be tested. The approach taken in this Assessment is described further in Appendices B and D and is consistent with NPPG which states that: *'Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable; site typologies may be used to determine viability at policy level.'* (Paragraph: 006 Reference ID: 10-006-20140306).
- 3.11 As hypothetical schemes were tested as opposed to real developments, it was necessary to make assumptions relating to each component of the residual land value equation.
- 3.12 NPPG describes 'Gross Development Value' (GDV) (represented by the grey box in Figure 1) as: *'the potential value generated by development in the area. On housing schemes this may be total sales and/or capitalised rental income from developments.'* (Paragraph: 005 Reference ID: 10-005-20140306). Costs (represented by the red boxes in Figure 1) reflect all development costs. As described in NPPG this includes build costs, infrastructure costs, the cumulative costs of policies and professional fees. The assumptions regarding development costs used in this Assessment are described in Chapter 5 below and in Appendices C and E. These are identified as representing averages or 'norms'.
- 3.13 For the output of the equation, that is: the 'Residual Land Value' (shown in blue in Figure 1) to be meaningful, an understanding of local land values is important. The Assessment employs the use of the commonly applied concept of 'Threshold Land Value' (TLV) to help in determining reasonable expectations about the return likely to be required by a willing landowner who would be required to sell their land in order to allow development to happen. TLV can be described as the value at which land owners would typically be willing to sell their land. This is inevitably subjective and it is acknowledged that actual transaction values will be determined not only by the existing use of the land, but also by the specific circumstances and aspirations of the landowner.
- 3.14 This Viability Assessment cannot determine every land owner's decision in any particular circumstances. However, in seeking to reach reasonable assumptions about a TLV, the Assessment has used the available evidence and taken professional advice to make informed assumptions about typical land owner's expectations in Northumberland.

- 3.15 Where the Residual Land Value is **lower** than the TLV development is likely to be **unviable** because there is not enough value left over to pay the landowner what they would generally expect. Therefore, they will not sell and the development will not happen. Where the Residual Land Value is **higher** than the TLV the development type is **viable**. Furthermore there may be headroom or surplus against which a CIL can be charged.
- 3.16 **Step 3: Information gathering and viability modelling.** A robust evidence base has been developed to underpin each of the assumptions and inputs in the viability equation. Information has been gathered from a variety of sources including but not exclusively:
- Published guidance including The Harman Guidance, and The RICS Guidance
  - The County Council's Planning Application Monitoring Database
  - The Northumberland Strategic Housing Land Availability Assessment and the Northumberland Strategic Housing Market Assessment
  - Planning Applications
  - Data from HM Land Registry
  - Web resources including Zoopla, Rightmove, Nethouseprices, Estates Gazette, Co Star, local agent web sites and Mouseprice.
  - BCIS Quarterly Review of Building Prices
  - Town Centre Health Check Reports for Northumberland
  - Hometrack
  - Examiners Reports on matters of whole plan viability and CIL
  - Advice from the Planning Advisory Service (PAS)
  - Advice from DVS
- 3.17 Members of the Development Viability Panel also submitted information and evidence to support or challenge preparation of the Assessment including: Examiners reports of other viability assessments; average house values by scheme; a list of sales and marketing overheads; house sizes; and external costs on a number of schemes.
- 3.18 The information collected, together with the knowledge, experience and expertise of those involved has underpinned well informed professional judgements.
- 3.19 It should be noted that in presenting the various data collected, the Development Viability Panel advised that the property industry usually uses imperial data (£/sq.ft.), although there are certain exceptions, principally for costs which are often in metric (£/m<sup>2</sup>). For ease of reference, in most cases the data collected is therefore presented in both metric and imperial.

- 3.20 **Step 4: Viability appraisal and tests.** The information and assumptions have been entered into the Homes and Communities Agency (HCA) Development Appraisal Tool<sup>3</sup>(DAT). This is a modelling tool developed specifically to assist in undertaking viability assessment of development schemes and is, in effect, a detailed model based on the residential land value equation described in figure 1 above. It allows users to enter variable inputs and generate output reports which may then be compared and analysed.
- 3.21 **Step 5: Review outputs, refine and revise the modelling.** Following consultation on previous documents, and further development of evidence, previous steps in the Viability Assessment have been revisited as part of the iterative process of preparing the Viability Assessment. The Viability Assessment has informed the development of the Core Strategy and ensured an effective balance between policy objectives and aspirations and economic viability.

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<sup>3</sup> NB. The modelling work originally undertaken in the earlier stages of preparing the Viability Assessment was migrated to the Development Appraisal Tool from the HCA's Area Wide Modelling Tool in the latter stages of the Viability Assessment. This does not affect the results of modelling work but was done to address certain limitations of the Area Wide Model.

## **4 IDENTIFYING RESIDENTIAL DEVELOPMENT TYPOLOGIES**

### **Residential Typologies**

- 4.1 Assessing the viability of the Core Strategy does not require individual testing of every site likely to come forward over the plan period. As advocated in the Harman Guidance, an appropriate starting point is to consider the types of site that are likely to form the supply for development over the plan period. In identifying these site types, the County Council reviewed a range of information, including the Strategic Housing Land Availability Assessment and the Five Year Housing Land Supply Reports prepared annually for monitoring purposes. In addition, the work assessed historic completions to consider types of regularly occurring past development. The latter had to be treated with an element of caution because the pattern of future development may not reflect that of past development, which came about under past or existing planning policies and market conditions.
- 4.2 Northumberland is a large and diverse County. It is the largest unitary authority by geographic area and is the most sparsely populated in England, with only sixty-three people per square kilometre. Home to around 316,000 people, Northumberland remains largely rural, but includes some significant built up areas. Areas in the south east and central areas of the County have the strongest relationship with the Tyne and Wear conurbation and are generally the most populated areas. This diversity implies a wide variety of sites and types of development to consider when looking at the likely scale and pattern of future development.
- 4.3 A large proportion of new housing development in Northumberland has come from small scale developments. It is forecast that small scale housing delivery will continue to play a key role in delivering the Council's objectives for growth.
- 4.4 In addition, a number of opportunities for significant scale housing developments have been identified, particularly in and adjacent to the Main Towns and Service Centres defined in the emerging Core Strategy. Significantly, the completion of the south west sector in Cramlington and the area around St George's hospital in Morpeth, will deliver major scale housing growth. Such sites will be critical to accelerated housing delivery in line with the Core Strategy's overarching objectives to plan positively for growth, and these two sites are identified in the Core Strategy as strategic locations for growth.
- 4.5 Rather than test a range of specific sites that could be considered broadly representative of a number of developments, with common characteristics, the Council recommended to the Development Viability Panel that the Viability



Assessment should be based upon site typologies and hypothetical sites. The Panel members agreed to the suggested approach. Typologies and hypothetical sites were identified in partnership with the Development Viability Panel that effectively captured the diversity of development sites and the range of key characteristics that would have a bearing on viability.

- 4.6 It was agreed that the site typologies would be tested at four different market value bands to take account of the differing strength of the market across the County. The adopted site typologies and hypothetical sites are presented in Table 1 below. The detailed rationale and justification for the definition of each typology and hypothetical site is explained further in Appendix B.

Typology	Typology Reference	Hypothetical Sites
Strategic Scale Settlement expansion	Type 1	Extension of a Main Town in an urban area comprising 400 dwellings. Brownfield
	Type 2	Extension of a Main Town or Service Centre. Comprising 350 dwellings. Greenfield.
Strategic Scale Settlement expansion including flatted development	Type 3	Extension of a Main Town or Service Centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield 50:50.
Significant scale main town or service centre infill or expansion	Type 4	Extension or infill of Main Town or Service Centre comprising 200 dwellings. Greenfield.
	Type 5	Extension or infill of Main Town or Service Centre comprising 200 dwellings. Brownfield.
Large scale settlement infill or expansion	Type 6	Settlement infill or expansion comprising 60 dwellings. Greenfield.
	Type 7	Settlement infill or expansion comprising 40 dwellings. Brownfield.
Medium scale development	Type 8	Settlement infill or expansion comprising 20 dwellings. Brownfield.
	Type 9	Settlement infill or expansion comprising 16 dwellings. Greenfield.
Small Scale development	Type 10	Settlement infill or expansion comprising 10 dwellings. Brownfield.
	Type 11	Settlement infill or expansion comprising 10 dwellings. Brownfield.
	Type 12	Out of settlement rural development comprising 6 dwellings. Brownfield.
Minor scale development	Type 13	1 dwelling development, not in a settlement, Agricultural brownfield land, 0.22 ha

Typology	Typology Reference	Hypothetical Sites
	Type 14	1 dwelling development, in a settlement, Brownfield land 0.11 ha
	Type 15	1 dwelling development, Greenfield site, 0.18 ha
	Type 16	2 dwelling development, Brownfield, in a settlement 0.3

**Table 1: Development Typologies and Hypothetical Schemes**

## Specific Site Assessment

- 4.7 NPPG sets out that: *‘Assessment of samples of sites may be helpful to support evidence and more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies.’* (Paragraph: 006 Reference ID: 10-006-20140306).
- 4.8 There are two significant scale housing sites which are considered to be central to the delivery of the Core Strategy: St Georges Hospital at Morpeth; and the South West Sector at Cramlington. Both are defined as ‘strategic sites’ in the Core Strategy. Those sites are significantly larger in terms of the quantum of development anticipated to be delivered on each site compared to the ‘strategic scale settlement expansion’ typology defined for the purposes of this Assessment. Further development at the scale proposed at St Georges and at the South West Sector is not expected to be delivered on any sites across Northumberland during the Core Strategy plan period. It is therefore not proposed to include an assessment of development at that scale in this report.
- 4.9 The sites at St Georges and at the South West Sector are subject to extant planning permissions or planning applications which include various planning obligations. Site based viability assessments have not been undertaken as part of this whole plan viability assessment. It was considered that, in addition to the limited likelihood of any similar scale housing development sites arising during the plan period, applying site specific viability assessments could prejudice live planning processes at the time this Viability Assessment was being prepared. This could therefore potentially compromise commercially confidential information.
- 4.10 The Council commission the DVS to assess a small sample of other ‘real world’ residential sites which were not subject to live planning applications but had been identified as potential development sites in the Strategic Housing Land Availability Assessment. A total of 13 real world sites were assessed and this work is described in the DVS Development Appraisal Reports published in September 2015 and June 2016. The purpose of the exercise was, in part, to provide an independent sense check and

validation of the typologies selected for this Viability Assessment. Details of these appraisals are outlined further in Chapters 5 and 10 of this report and in Appendix G.

## 5 RESIDENTIAL ASSUMPTIONS

- 5.1 In undertaking an assessment of the viability of the selected site typologies and hypothetical schemes, various site characteristics need to be assumed. A range of evidence was utilised in this regard. In assessing the sample of 'real world' sites, the Viability Assessment can be somewhat more precise, as further site specific details were known. Appendix C describes how assumptions were arrived at, including sources of evidence and how stakeholder comments informed the process. The assumptions adopted in the Viability Assessment are described below.

### Site Sizes and Capacity

- 5.2 The Residual Land Valuation methodology calculates what is left to pay for land. This can only be meaningful if the amount of land required for the development is known. For each hypothetical site, it was therefore necessary to understand the likely size and capacity of development sites.

#### The developable proportion of sites

- 5.3 Development does not occur across an entire development site. A proportion of the area is taken up by other uses including the likes of open space and access roads. The total site area is referred to as the 'gross site area' whilst the remaining area, where built development will take place is known as the 'net developable area'. The assumed net developable areas vary according to site size and are given in Table 2 below:

Site Size	Assumed Proportion of Site that is Developable
Less than 0.4 ha	100%
0.4 to 2 ha	83%
Over 2 ha	70%

**Table 2: Assumed developable proportion of sites**

#### House Size

- 5.4 Given the intrinsic link between site capacities and dwelling sizes it was necessary to understand the normal size of dwellings. Taking median figures from a sample of house types which were accurately measured, the assumed house sizes according to the number of bedrooms are described in Table 3 below:

Dwelling Type	Average GIA (m <sup>2</sup> )	Average GIA (ft <sup>2</sup> )
1 Bed Flat	43.38*	466.94*
2 Bed Flat	66.52*	716.02*
2 bed house	65.03	699.98
3 bed house	91.75	987.59
4 bed house	124.38	1388.82

**Table 3 Assumed Dwelling Sizes**

- 5.5 The Northumberland Local Plan Draft Core Strategy does not include recently introduced optional nationally described space standards. The assumed dwelling sizes above do not meet the space standards if dwellings were at maximum occupancy. Should evidence determine that a future planning policy is required to implement the national space standards in Northumberland this will be subject to further viability testing.

#### House type mix

- 5.6 The house type mix of a typical development scheme is also key to determining the dwelling capacity of a site. The NPPF requires local planning authorities to seek to address housing need. Informed by the SHMA, evidence of what the housing market had been delivering, and having regard to the views of the Development Viability Panel, the scheme house type mix for each typology described in Table 4 below was applied in undertaking the Assessment:

Typology Ref.	Typology	1 bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
<b>Types 1 &amp; 2</b>	Strategic Scale Settlement expansion				20%	40%	40%
<b>Type 3</b>	Strategic Scale Settlement expansion including flatted development	5%	10%		20%	40%	25%
<b>Types 4 &amp; 5</b>	Significant scale main town or service centre infill or expansion				20%	40%	40%
<b>Types 6 &amp; 7</b>	Large scale settlement infill or expansion				20%	40%	40%
<b>Types 8 &amp; 9</b>	Medium scale development				20%	40%	40%
<b>Types 10, 11 &amp; 12</b>	Small Scale development					50%	50%
<b>Types 13, 14, 15 &amp; 16</b>	Minor scale development					50%	50%

**Table 4: Assumed house type mix (by number of bedrooms)**

- 5.7 It should be noted that numbers have been rounded and in smaller scale schemes there is more limited flexibility to achieve a full mix. It also takes into account that generally, small schemes normally only deliver three and four bed homes.

#### Site Capacity

- 5.8 Making efficient use of land is a long standing principle of planning policy. The NPPF does not identify an indicative minimum density threshold. Instead, local authorities are encouraged to set out their own approach to housing density that reflects local circumstances. The emerging Core Strategy does not seek to prescribe minimum densities. Therefore, using the available evidence, which takes into account the developable proportion of sites, average dwelling sizes and house type mix, the resulting assumed site capacities are translated into a dwelling density described in Table 5 below:

	Dwellings per gross hectare
<b>General development density</b>	20-26

**Table 5: Assumed Dwelling density**

- 5.9 For minor scale schemes, evidence pointed towards much lower dwelling densities reflecting generally larger scale houses set in large plots. The resulting assumed site capacities are translated into a dwelling density described in Table 6 below:

	Dwellings per gross hectare
<b>Minor scale development density</b>	5-9

**Table 6: Assumed dwelling density for minor scale schemes**

#### Summary Details of Hypothetical schemes

- 5.10 Table 7 below sets out in summary form the assumptions applied in considering the viability of each hypothetical development scheme.

Typology	Typology Reference	Number of Dwellings	Gross Site Size (ha)	Net Site Size (ha)	Dwellings per ha (Gross)
<b>Strategic Scale Settlement Expansion</b>	Type 1	400	15.5	10.85	26
	Type 2	350	14	9.8	25
<b>Strategic Scale Settlement Expansion including flatted development</b>	Type 3	300 including 20 flats	12.5	8.75	24
<b>Significant Scale Main</b>	Type 4	200.	8	5.6	25

Typology	Typology Reference	Number of Dwellings	Gross Site Size (ha)	Net Site Size (ha)	Dwellings per ha (Gross)
<b>Town or Service Centre infill or expansion</b>	Type 5	200	8	5.6	25
<b>Large Scale Settlement Infill or Expansion</b>	Type 6	60	2.5	1.75	24
	Type 7	40	1.75	1.4525	23
<b>Medium Scale Development</b>	Type 8	20	1	0.83	20
	Type 9	16	0.7	0.581	23
<b>Small Scale Development</b>	Type 10	10	0.5	0.451	20
	Type 11	10	0.5	0.415	20
	Type 12	6	0.3	0.3	20
<b>Minor Scale Development</b>	Type 13	1	0.22	0.22	5
	Type 14	1	0.11	0.11	9
	Type 15	1	0.18	0.18	6
	Type 16	2	0.3	0.3	7

**Table 7: Summary - Assumed Site Sizes and Dwelling Capacity**

## Residential Development Values

- 5.11 To appraise matters of deliverability and more particularly, to determine the gross development value of schemes, it is necessary to understand broad housing market conditions and house values. The Northumberland housing market is discussed in Appendix C. The market has seen firm signs of recovery over a prolonged recent period. An upturn in the national economy, continued low interest rates and stimulus such as the government's 'Help to Buy' initiative have helped to increase the number of transactions and house prices. The national picture is one of successive value increases. The annual price change now stands at 7.1%, bringing the average house price in England and Wales to £191,812.<sup>4</sup>
- 5.12 The increase in values of new build homes has recently far exceeded the rate of increase for previously lived in homes. Although this has slowed more recently it was still evident in prices paid during the calendar year to January 2016, where prices paid for new dwellings increased by 8.3%<sup>5</sup>.

<sup>4</sup> Land Registry House Price Index Report January 2016 (released 26<sup>th</sup> February 2016)

<sup>5</sup> The Office for National Statistics (ONS) House Price Index (HPI), April 2016 previously published by the Department for Communities and Local Government (DCLG), is a monthly release that publishes figures for mix-adjusted average house prices and house price indices for the UK, its component countries and regions.

### Housing Market Variations in Northumberland

- 5.13 There are, of course, variations in housing market conditions across the UK and also across a County as large and diverse as Northumberland. Appendix C provides analysis of the varying values of both new build and previously lived in homes in Northumberland. Broadly speaking the highest values achieved are in the high amenity commuter areas such as the Tyne Valley, Ponteland and Darras Hall. These values are also evident in a number of attractive small settlements including in the more distant accessible rural areas and market towns.
- 5.14 Values generally decline in less accessible upland rural areas close to the Scottish Borders and in Berwick. Lower values are found in the former coalfield areas of south east Northumberland. Intermediate values can be found in mid-market commuter areas including parts of Blyth. These very broad patterns were agreed by the Development Viability Panel to reflect the overall picture of the housing market in Northumberland.
- 5.15 Evidence demonstrates there can be significant differences in values at a very localised level. Often the very specific nature of a development such as its design or outlook will determine values. For the purposes of the Viability Assessment it is important to understand typical values being achieved and how they typically vary between localities within the same settlement and between settlements. NPPG states that *'Average figures may need to be used, based on types of development that the plan is seeking to bring forward.'* (Paragraph: 012 Reference ID: 10-012-20140306).
- 5.16 Using data from a range of sources, including Land Registry records, house values were identified for a sample of new schemes across the County. The data gathered relates principally to sale values achieved. The Viability Assessment does not rely on estimated values or the value at which a property is marketed and therefore gives an accurate picture of the actual revenue received by a developer.

### Limitations of the Available Data

- 5.17 There are some limitations to the available data that need to be acknowledged. It has been identified that many of the lowest value homes relate to affordable homes which aren't always easy to identify. The Council has records of where affordable homes are built. However, it is not a straightforward task to correlate housing numbers with plot numbers. The Council contacted the Land Registry to clarify whether affordable homes were identifiable. The Land Registry confirmed such sales were not coded therefore could not be easily identified.
- 5.18 In addition some sales represent shared equity arrangements. The sale value may therefore represent a proportion of the actual market value rather than the full value.



The Land Registry similarly confirmed these sales were not coded so they could be identified.

- 5.19 The results therefore present a skewed picture, towards lower than market values. They do not exclusively represent market housing but are the best indicator based on the available evidence.
- 5.20 The data is also distorted by locational factors. New home sales in recent years have tended to focus in certain areas, particularly in the south east of the County where values are lowest. In this regard it is equally important to recognise that sales values retrieved relate to a period of a relatively weak and uncertain property market.
- 5.21 In view of the limitations, the DVS were asked to provide some further evidence of values. DVS has access to data collated by the Valuation Office Agency (VOA) from Stamp Duty Land Tax returns on all property transactions. In addition the DVS has comprehensive property surveys for property including new build dwellings which gives an in depth view of transactions in specific locations. Details are provided in the Development Appraisal reports prepared by the DVS and are presented in relation to specific schemes in table 8 below.

#### Sales Values for New Build

- 5.22 In Northumberland, according to the price paid data produced by Land Registry, the average price paid for a new build home between 1st January 2015 and 1st January 2016 was £211,271. This is well above the Northumberland overall average price paid in the same period which was £183,219 (new build and previously lived in homes). This would in part be expected as new build properties generally attract a premium.
- 5.23 Values within the lower quartile of the data collected were mostly in the south east delivery area including in Ashington, Blyth and Newbiggin-by-the-Sea. However, there were significant variations in the values found in these settlements. Ashington, by way of an example, also had areas of high value sales. Values in the upper quartile of the data were mostly in the Central and North delivery areas.

#### Sales Values for Previously Lived in Homes

- 5.24 In order to supplement evidence of new build sales, the price achieved for previously lived in homes was also analysed separately. There remain some limitations to the approach, principally in relation to the lack of transactions in some areas, predominantly rural locations. However the data is sufficient to provide relative patterns of values across the County.
- 5.25 According to the price paid data produced by Land Registry, the average price paid for a previously lived in home in Northumberland between 1st January 2015 and 1st

January 2016 was £180,614. Values within the lower quartile of the data collected were similarly mostly in the south east delivery area.

- 5.26 Values in the upper quartile of the data were mostly in the Central and North delivery areas. Main settlements achieving the highest values include Ponteland, Hexham and Morpeth. There were also a number of small more rural settlements where there were very high value transactions including in Lesbury, Wark, Eshott and Whalton.

#### Site Specific analysis of Values

- 5.27 In appraising specific sites, local sub market conditions were considered by the DVS. This is presented in the Development Appraisal reports prepared by the. The DVS commented on the uniqueness of sites and that a series of factors will influence values. Accordingly, the post code areas or adjacent post code areas of the site assessed were appraised in further detail.

#### **Revenue by Size**

- 5.28 For data on house values to be meaningful in the Residual Land Value equation and to enable them to be compared to development costs, it was necessary to identify value according to property size. This has been calculated and presented as a £/m<sup>2</sup> value. A number of schemes across Northumberland were selected for assessment where sales are known to have taken place over recent years. Using the known sales values achieved on schemes from Land Registry Price Paid Data, these sales have been compared with the actual house sizes on schemes identified from planning applications, and a £/m<sup>2</sup> value calculated.
- 5.29 The methodology employed involved establishing the sale price for specific types of dwellings on the housing schemes identified for assessment, that is: the value achieved for example for detached, semi-detached, terraced, and flatted development on each scheme. The sale price achieved was then divided by the average dwelling size for each particular type of dwelling on that scheme. These £/m<sup>2</sup> figures have then been used to calculate an overall average sales value figure for the scheme. These average sales values for the range of sites assessed are presented in Table 8 below.. Where sales are known to be for affordable houses these have been removed from the scheme data to reduce potential for the suppression of values.
- 5.30 The DVS re-appraised a number of schemes described in Table 8 to identify average values according to area. This has provided validation on sales values achieved using data collected from Stamp Duty Land Tax Returns for all property transactions to which the DVS have direct access.

Settlement	Scheme mix	Average £m <sup>2</sup>
Alnwick	Mixture of three and four bedroom semis,	£2,251

Settlement	Scheme mix	Average £m <sup>2</sup>
<ul style="list-style-type: none"> <li>Willoughby Park</li> </ul>	detached and terraced houses.	
Amble <ul style="list-style-type: none"> <li>Coquet Grange</li> </ul>	Mixture of semis, detached and terraced houses.	£1,633
Ashington <ul style="list-style-type: none"> <li>Portland Park</li> </ul>	Mix of mainly four bed terraced, four bed detached and two bed flats. Some three bed terraces and five bed detached.	£1,591
Beadnell <ul style="list-style-type: none"> <li>St Ebbas Way</li> </ul>	Majority three bed houses with some two bed houses.	£2,358
Bedlington <ul style="list-style-type: none"> <li>Clearwell Place</li> </ul>	Three bed majority detached, four bed all detached.	£1,891
Berwick upon Tweed <ul style="list-style-type: none"> <li>Mill Wharf</li> </ul>	Mainly two bed flats, with some two and three bed houses and one and three bed flat.	£2,104
Blyth <ul style="list-style-type: none"> <li>South Shore</li> <li>Horton Park</li> <li>Chase Farm Drive (Large Site)</li> <li>Wellesley Drive</li> <li>Portland Wynd</li> </ul>	Mixture of two bed flats, three bed house, four bed house and five bed house. Mixture of two bed flats, three bed houses, and four bed houses. Majority three bed houses and four bed houses with some one and two bedroom flats, two bed houses and five bed houses. Two bed all terraces, three bed mix of terraces, semis and detached four bed all detached Mixture of two, three, four and five bedroom houses and some one and two bed flats	£1,580 £1,416 £1,562 £1,628 £2,350 (based on asking price)
Blyth <ul style="list-style-type: none"> <li>Lighthouse Grove, Pioneer Way etc</li> </ul>	Two bed mix of terraces and semis, Three bed mix of terraces semis and detached and four bed all detached	£1,446 £1,867 £1,952
Corbridge <ul style="list-style-type: none"> <li>Princes Court</li> </ul>	Majority 2 bed flats with some 3 bed flats.	£3,676
Cramlington <ul style="list-style-type: none"> <li>Bassington Manor</li> </ul>	Three bed and four bed.	£2,300 (based on asking prices) £2,150 (based on asking prices)
Cramlington <ul style="list-style-type: none"> <li>Alexandra Chase</li> </ul>	Three bed semis Four bed mix	£2,090 £2,033

Settlement	Scheme mix	Average £m <sup>2</sup>
Cramlington <ul style="list-style-type: none"> <li>Blake Drive/School Close</li> </ul>	Majority detached properties	£1,893
Cramlington <ul style="list-style-type: none"> <li>Pickering Close</li> </ul>	Three bed mix of semis, terraces and detached	£1,798
Haltwhistle <ul style="list-style-type: none"> <li>Orchard Gardens</li> </ul>	Two bedroom apartments and three bedroom houses.	£1,726
Hexham <ul style="list-style-type: none"> <li>Shaftoe Crescent</li> </ul>	Four bedroom semis	£2,206
Morpeth <ul style="list-style-type: none"> <li>Southgate Mews</li> </ul>	Majority four bed houses with some three and four bed houses.	£2,260
Morpeth <ul style="list-style-type: none"> <li>The Kylins</li> </ul>	Mixture of three, four and five bedroom houses with a mixture of one and two bed apartments	£2,410
Pegswood <ul style="list-style-type: none"> <li>Beaumont Court</li> </ul>	Three bed mix of semis and detached Four bed all detached	£1,900 £1,770
Ponteland <ul style="list-style-type: none"> <li>North Road</li> </ul>	Majority detached houses with some terraces.	£2,607
Seaton Delaval <ul style="list-style-type: none"> <li>Wheatridge Park</li> </ul>	Mixture of three bed houses, four bed houses, two bed flats with some five bed houses	£1,755
Seaton Delaval <ul style="list-style-type: none"> <li>Wheatfields</li> </ul>	Mixture of two, three, four and five bedroom semis, detached and terraced houses	£2016
Wooler <ul style="list-style-type: none"> <li>Fenton Grange</li> </ul>	Mainly three and four bedroom houses with some two and five bed houses.	£1,714

**Table 8: Summary - Assumed Site Sizes and Dwelling Capacity**

5.31 There are acknowledged limitations to the data in respect of geographic spread. For example, there are relatively few new build sales in the West and Central delivery areas, reflecting the fact there has been relatively little housing development in the recent past in those areas. In order to supplement the available information available on new-build sales values, the sale values achieved for previously lived in homes have also been considered.

5.32 Based on the calculated sales values achieved as described in Table 8 above; a range of more recent house price reports showing recent house price inflation including: ONS House Price Index, Nationwide House Price Index, RICS Residential Market

Survey, Land Registry House Price Index, and the Halifax House Price Index; along with direct evidence from of sales values achieved from the Land Registry, an increase in average sales values achieved for new-build housing is evident when compared to information used in earlier iterations of this Viability Assessment. Accordingly, having regard to the available evidence and in applying professional judgement, the proposed value bands utilised in this Viability Assessment have been increased. The revised value bands for the value areas defined in this Assessment are as follows:

- Low – £1600 m<sup>2</sup>
- Medium – £2000 m<sup>2</sup>
- High – £2400 m<sup>2</sup>
- Highest – £2800 m<sup>2</sup>

5.33 Evidence of price paid data shows considerable variations in values at a localised level, even within settlements. Using the available evidence of both new build and previously lived in homes and applying professional judgement the Main Towns and Service Centres, as defined in the emerging Core Strategy, are identified as falling broadly within the value bands identified in Table 9 below. These value bands represent approximate values and, in accordance with advice provided in the available guidance, should not be relied upon for site specific testing.

South East Delivery Area - Main Towns & Service Centres	
Amble	Low
Ashington	Low / Medium
Bedlington	Medium
Blyth	Low /Medium
Cramlington	Medium
Guidepost/ Stakeford/ Choppington	Low /Medium
Newbiggin-by-the-Sea	Low
Seaton Deleval/New Hartley/ Seghill/Holywell	Medium
Central Delivery Area - Main Towns & Service Centres	
Hexham	High
Morpeth	High
Ponteland	Highest
Prudhoe	Medium

Corbridge	Highest
<b>North Delivery Area - Main Towns &amp; Service Centres</b>	
Alnwick	Medium /High
Berwick upon Tweed	Medium / High
Belford	Medium
Seahouses	High
Rothbury	Medium
Wooler	Medium
<b>West Delivery Area – Main Towns &amp; Service Centres</b>	
Haltwhistle	Medium
Allendale	High
Bellingham	Medium
Haydon Bridge	Medium

**Table 9: Settlement Value Summary**



## Approximate New Build Values by Settlement

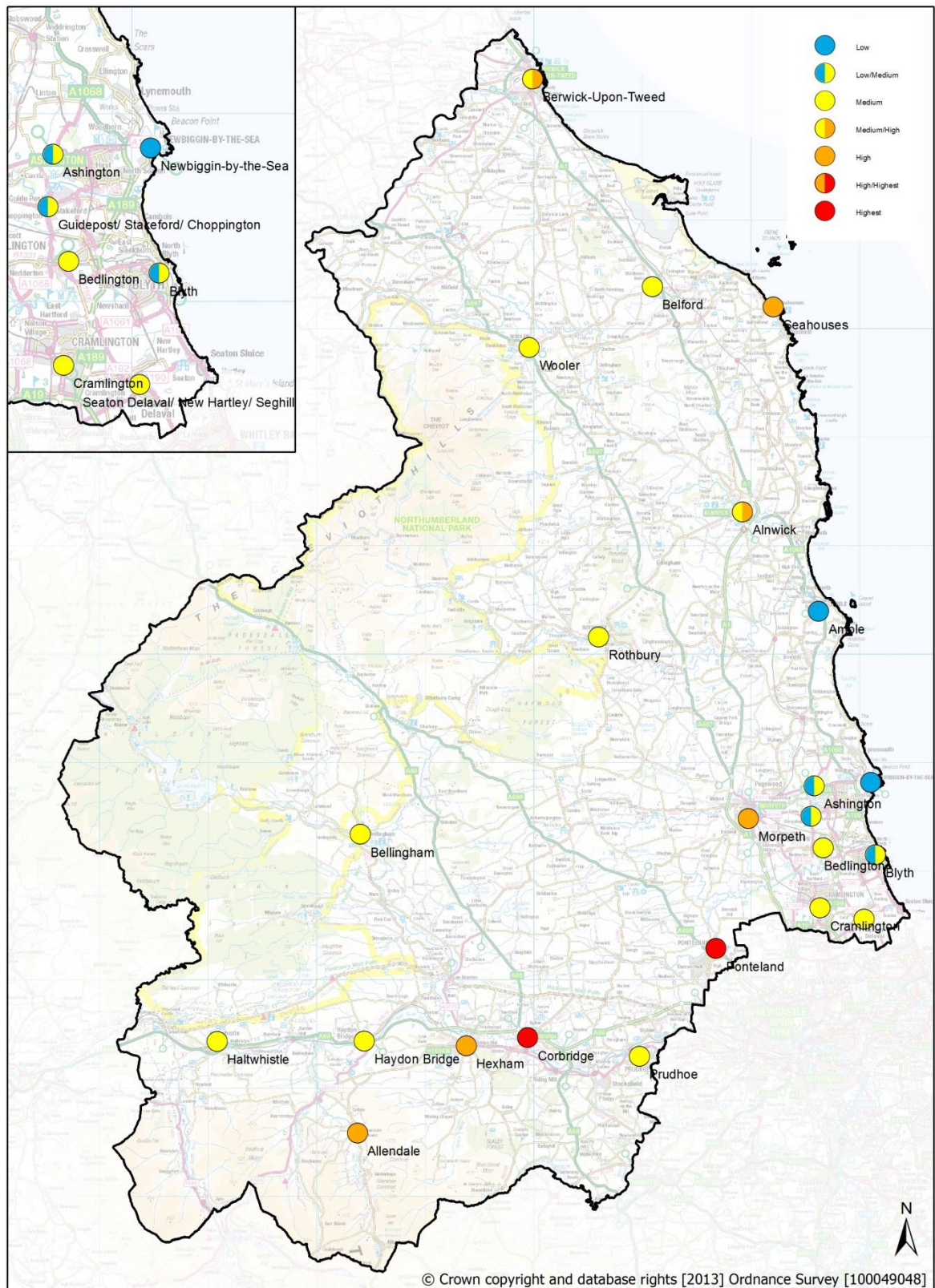


Figure 2: Map illustrating new build values by settlement

## **Affordable Housing Values**

- 5.34 In considering the value of affordable housing, a number of factors need to be taken into account, including the type of affordable housing. These factors are discussed further in Appendix C. Although it is considered there are areas that will qualify for subsidy, for the purposes of this Assessment, and in adopting a cautious approach, it has been assumed that no housing grant is available. If grant support is available the viability inevitably improves, potentially increasing the level of affordable housing that is viable.
- 5.35 At the time of preparing this report, the definition of affordable homes and means of providing affordable homes was subject to review and debate. Most recently, this has resulted in revised definitions proposed through the Housing and Planning Act 2016 which specifically includes provision for 'Starter Homes'. These changes in legislation could have a significant impact on the affordable housing values assumed for the purposes of whole plan viability testing. Similarly changes to the roles of Registered Housing Providers could influence the tenure and values of affordable homes. This component of the Viability Assessment may therefore need to be reviewed and revised.
- 5.36 The emerging Core Strategy includes an overall target for 30% of new homes across Northumberland to be affordable. Given part of this need is forecast to be met by committed development the policy requires at least 15% of homes on new permissions to be affordable. The policy includes provision for a higher affordable housing target where there is evidence of local need and where viability permits. In some instances, off-site provision or a financial contribution in lieu of direct provision may be permitted where it can be robustly justified.
- 5.37 The development value of affordable housing can be calculated in a number of ways and is dependent upon the tenure of affordable housing. Affordable housing may comprise dwellings offered for sale at a discount to market value. It may also comprise dwellings built by or for an affordable housing provider and subsequently managed by that provider. In such circumstances the value of each dwelling is often calculated by reference to a capitalised rental yield which generates a transfer value which is paid by the affordable housing provider to the housebuilder. Appendix C provides the details behind how affordable values were derived.
- 5.38 Following evidence which has been collated and advice from DVS the assumed affordable housing values by tenure used in the Assessment are as follows:
- Intermediate: 67.5% of market value
  - Affordable Rent and social rent: 45% of market value



- Starter Homes: 80% of market value

## Residential Development Costs

5.39 Development costs are variable from one scheme to another. The costs used in this Viability Assessment have been established having regard to the available evidence, advice from the Development Viability Panel and professional judgement. Appendix C provides the detail behind how residential development cost assumptions have been established, including the views of Panel members and the research undertaken.

### Build Costs

- 5.40 The BCIS Quarterly Review of Building Prices is commonly used as an indication of build costs. The Harman Guidance (p.34) recommends that build costs: *'...should be based on BCIS or other appropriate data, adjusted only where there is good evidence for doing so based on special local conditions...'*. The BCIS data is expressed in £/m<sup>2</sup> of the gross internal floor area and is derived from analysis of tender prices. It is broken down according to detailed development types. For the purposes of the Viability Assessment the BCIS 'general estate housing' development type was considered to best capture residential development across the County, except for flatted residential schemes, which have been specifically tested separately. BCIS data is presented as: *'...contract sums excluding external works and contingencies with preliminaries apportioned by value'*.
- 5.41 BCIS utilises a regional/county factor approach to capture local variations to build costs. The assumed build costs used in the modelling are based on the BCIS build cost for general estate housing for Northumberland in July 2015. These are shown in Table 10 below. BCIS costs published at April 2016 are lower than the summer 2015 figures. Therefore the build cost figures used in the modelling represent a cautious approach to establishing reasonable build costs:

BCIS – Building Function	Lower Quartile	Median	Upper Quartile
General estate housing build costs	£872m <sup>2</sup>	£992m <sup>2</sup>	£1,123m <sup>2</sup>
Flats generally	£1,092m <sup>2</sup>	£1253m <sup>2</sup>	£1,462m <sup>2</sup>

**Table 10: BCIS Build Costs**

### Additional Normal Build costs

- 5.42 In recognition that the BCIS build costs do not include contingencies or the cost of external works such as landscaping, car parking, drainage and site services, an additional allowance has been made for such provision.

### External works

- 5.43 External works refer to works outwith the building envelope such as gardens and access roads. They are assumed at 15% of build cost on medium, large and significant scale development and 10% on small and minor scale development. On advice from the Home Builders Federation and the DVS this has been 'rolled-in' to the build cost prior to the calculation of other costs.

### Contingencies

- 5.44 Contingency is an allowance for unexpected costs that could not be reasonably anticipated at the planning stage and can be expressed as a percentage of build cost. Appropriate levels of contingency will depend on the nature of development, the procurement method and the perceived accuracy of the information received. In view of the evidence, and taking the Panel members views into account the assumed contingency is 3.75% on build costs, which been adopted across all sites.

### **Build Costs Over Time**

- 5.45 Assumed build costs will inevitably vary over time. The recession saw deflated build costs for a period of time. Cost were recognised as rising after a period of recession, but have more recently reduced reflecting the operation of the market in relation to normal supply and demand. Accounting for changes to costs and values over time is addressed below.

### **Abnormal Build costs**

- 5.46 Abnormal costs could also be described as exceptional costs. They are identified in the RICS Guidance as including matters such as: *'...an unusual sewerage connection facility, high levels of site contamination and the need for extensive remedial works, flooding, site boundary and stabilisation works.'*
- 5.47 Such abnormal costs are precisely as the term suggests. They are highly site specific and are very difficult to determine without detailed knowledge of a site and in many instances site investigation work. Based on an analysis of land supply in the plan period, including a review of sites in the SHLAA, it was considered most of the sites coming forward were greenfield sites where significant abnormal build costs would not be expected. In undertaking site specific appraisals abnormal build costs could be factored in as more site specific details were known.

### **Professional Fees**

- 5.48 Professional fees can include planning consultants, quantity surveyors and architects. The assumed professional fees used in the Assessment are 10% of build costs. In

undertaking site specific appraisals professional fees were adapted according to site specific characteristics.

### **Sales and Marketing**

- 5.49 Residential sales and marketing costs will vary from site to site and in accordance with the strength of the market and the scale of development. Given the varying strength of the market in Northumberland and the purpose of this high level area wide Viability Assessment it has been assumed that sales and marketing fees would be 4% on gross development value, plus £500 per residential unit for legal fees. In undertaking site specific appraisals, informed sales and marketing costs were used.

### **Site acquisition fees**

- 5.50 The assumed site acquisition fees are broken down as follows: 1% agent fees; 0.75% legal fees; and Standard Rate scale for Stamp Duty Land Tax. This reflects standard site acquisition fees cited in a number of similar viability appraisals and site specific viability appraisals. It also reflects the Council's knowledge of fees incurred in respect of recent land transactions.

### **Finance costs**

- 5.51 Finance costs will vary according to the type of scheme and type of developer. For the purposes of the Viability Assessment, development is assumed to be fully debt funded. The Bank of England Inflation report May 2016 states that: *"The Bank of England base rate has remained low at 0.5%. All members [of the Bank of England Monetary Policy Committee] agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles."*<sup>6</sup>
- 5.52 Based on the available evidence, the assumed finance costs are 6.5%.

### **Developer Profit and overhead**

- 5.53 Developers profit or return is an important component of the Viability Assessment. As stipulated in the NPPF for development to be viable it should: *'...provide competitive returns to a willing land owner and willing developer' (Paragraph 173)*. NPPG expands in this statement by advising that the return for developers: *'...will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.'* (Paragraph 024: Reference 10-024-20140306).

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<sup>6</sup> Bank of England Inflation report, May 2016

- 5.54 The assumed developer profit used in this Viability Assessment is 17% - 20% of gross development value, varied according to site typology as described in Table 11 below. The assumed profit or return on affordable housing differs and is assumed as 6% of gross development value.

Typology	Developer profit as % of gross development value
Strategic Scale Settlement Expansion	20%
Strategic Scale Settlement Expansion including flatted development	20%
Significant Scale Main Town or Service Centre infill or expansion	20%
Large Scale Settlement Infill or Expansion	20%
Medium Scale Development	20%
Small Scale Development	17%
Minor Scale Development	17%

**Table 11: Percentage of developer profit by Typology**

- 5.55 The assumed build periods, together with a lead in time and duration for sales/lettings are set out in Table 12 below. These have been informed by professional experience and analysis of example sites, including those provided by members of the Development Viability Panel. In undertaking site specific appraisals, build periods, lead in times and sales periods were adjusted according to site specific characteristics

Build Rates
3 months to complete each unit
Sales period of 6 months from commencement
30 units per annum on sites of less than 60 units
60 units per annum on sites of 60 units or more

**Table 12: Build Periods, Lead in Times and Sales Periods**

## Sensitivity Tests

- 5.56 The residential cost assumptions used in the Viability Assessment are considered to represent reasonable averages based on the available evidence, guidance on undertaking viability assessments and on professional judgement. However, arriving at certain assumptions is complex, and can be contentious. In looking to validate the assumptions used in the context of both hypothetical site appraisals and in 'real world' site appraisals a number of tests were therefore applied by the DVS to consider the sensitivity of varying some of the key assumptions on the outcomes of modelling

undertaken as part of this Assessment. Sensitivity tests were applied in the most recent modelling work undertaken by the DVS as follows:

#### Build Costs Sensitivity Tests

- 5.57 The BCIS Quarterly Review of Building Prices should be acknowledged to have certain limitations. The prices are considered inherently high as they are based on tender prices rather than actual costs. It is also known that volume house builders can generally achieve economies of scale. Based on other sources of build prices discussed in Appendix C it is appropriate to consider a sensitivity test to assess larger development typologies at lower build costs. This sensitivity test utilises a figure of £875m<sup>2</sup> as recommended by the DVS.

#### Abnormal Build Costs Sensitivity Tests

- 5.58 Abnormal costs have not been assumed on greenfield sites, other than in the case of site specific appraisals for the reasons outline in Appendix C. Some stakeholders considered abnormal costs should be taken into account. Informed by evidence submitted on the types of abnormal costs that can be incurred, a sensitivity test has been applied which assesses including a level of abnormal costs.

#### Professional Fees Sensitivity Test

- 5.59 The assumed professional fees are based principally on common practice from other similar whole plan viability assessments. It is considered that volume house builders will generally achieve economies of scale and therefore incur lower professional fees, other than in cases of very bespoke schemes. Accordingly, a sensitivity test has been applied which tests lower professional fees at 6% of build cost.

#### Affordable Housing and the Impact of the Starter Homes Initiative

- 5.60 The value of an affordable home to a developer can vary significantly. Not only are there different recognised approaches to determining the likely transfer value of an affordable home to a registered provider, the range of affordable house types is also a key determinant to value. Changes to legislation will alter the definition of affordable housing. It is difficult to test with any certainty the impacts of these changes. However it is appropriate to consider testing the sensitivity of varying affordable values.
- 5.61 The inclusion of 'starter homes' as a form of affordable housing which will be sold at a discount of 80% of market value, and the statutory obligation to provide this type of affordable housing will impact development viability. It is considered appropriate to test the impact of the introduction of this initiative. Therefore a sensitivity test has been introduced to show the impact of providing 'starter homes' on the viability of the hypothetical schemes modelled in this Assessment.

### Cumulative Sensitivity Test

- 5.62 Although unlikely to take place, a further scenario has also been undertaken to show the potential impact on viability should all of the above sensitivity tests be run together in the modelling.

### 'Low Cost' Housebuilder Sensitivity Test

- 5.63 On recommendation from the DVS it has also been considered appropriate to undertake modelling on a range of the hypothetical sites which would be attractive to 'low-cost' housebuilders which are known to be active in the region. These tend to be on lower value sites with development being built at a generally lower cost than identified in the original modelling work undertaken for this Assessment.
- 5.64 This sensitivity test utilises the standard assumptions with the exception of the following:
- Brownfield site value reduced to £123,552.50 per gross hectare (£50,000 per gross acre);
  - Greenfield site value at £247,105 per gross hectare (£100,000 per gross acre);
  - Basic build costs at £750m<sup>2</sup> (which includes garages);
  - External costs at 20% of basic build costs;
  - Professional fees at 5.5% of build cost;
  - Finance at 5% for debt and 2.5% for credit; and
  - Profit at 20% of GDV on market value and on affordable units.
- 5.65 The above inputs are based on averages taken from 8 'low-cost' house builder schemes proposed across the north of England provided to the DVS by house builders as part of appraisals undertaken by the DVS.

### **Accounting for changes over time**

- 5.66 The approach taken to assumptions used over time is discussed in the Harman Guidance which advises that the approach taken will differ across the short, medium and long term.
- 5.67 Having regard to the NPPF requirement that Local Planning Authorities must demonstrate that they have a deliverable five year supply of land for housing, the Harman Guidance suggests that a viability assessment of a plan should adopt a slightly different approach for the first five years from that taken for the longer term period

covered by the plan. It advises that the most appropriate way to assess plan policies for the first five years, is to work on the basis of current costs and values. The approach advocated in the Harman Guidance has been adopted in this Viability Assessment.

- 5.68 The approach adopted ensures the Viability Assessment reflects the economic realities of the time at which the plan is being prepared. However, much of the evidence necessarily relates to previous years. For example, in establishing gross development values it is necessary to look at the sales and rental values that have been achieved in recent years. In this context it is important to recognise that the Viability Assessment is being undertaken at a time the Country and County are recovering from an extended period of recession. The values captured are considered in some instances to be unusually low, reflecting the wider economic climate and factors described elsewhere in this Assessment such as the availability of finance.
- 5.69 The one exception to the use of current costs and current values is suggested in the Harman Guidance to be in recognition of significant national regulatory changes to be implemented within the first five years of the plan. Zero carbon homes had initially been considered in this regard. However, this has since been revoked and is therefore no longer modelled.
- 5.70 Beyond the first five years of the plan, variable assumptions need to be considered. The Harman Guidance suggests these longer term plans should be subject to viability testing in order to be assured of plan viability over the plan period. However, less reliance can be placed on these projections as future economic and political circumstances cannot be foreseen.
- 5.71 Consequently, in preparing their site development appraisals the DVS have looked to sensitivity analysis to test likely variances in appraisal inputs. In particular, the DVS note that the assessment should have regard to the potential impact of market changes over time. This would include having regard to the economic cycle in house prices and build costs. However, it is acknowledged by the DVS that it is extremely difficult to forecast how the market will potentially change over time, particularly when looking forward over the life of a Local Plan. This means it is difficult to appropriately model the viability appraisals to reflect future flux in the market place.
- 5.72 In this respect the DVS advise that, ordinarily, initial testing should be regarded as being at a specific 'point in time', with sensitivity testing used to reflect potential variations over time. However, in this case, the DVS have expressed the opinion that, since the initial appraisal testing has been, in their view, cautious it therefore already builds in potential cost inflation over time. In the opinion of the DVS, having regard to the assumptions used in the Viability Assessment, the initial appraisal testing should be regarded as reflecting a 'worst case' scenario. Recognising this initial cautious

approach, the sensitivity analysis undertaken by the DVS has focused on potential positive variations in the appraisal inputs and therefore potential positive changes in the market place which would improve viability.



## 6 IDENTIFYING COMMERCIAL DEVELOPMENT TYPOLOGIES

- 6.1 The residual land value calculation for commercial development has many similarities to that for residential development. The viability of commercial development is determined using the same residual land value equation. Assessing the viability of the Core Strategy does not require individual testing of every site likely to come forward over the plan period. As advocated in the Harman Guidance, an appropriate starting point is to consider the types of site that are likely to form the supply for development over the plan period.
- 6.2 The County Council reviewed a range of information to consider what types of commercial development could come forward and the most likely locations. This included looking at the Employment Land Schedule and town centre Health Check Reports. The work also considered economic scenarios, the sectors supported by the North East Combined Authority and North East Local Enterprise Partnership and by emerging planning policy.
- 6.3 In considering the type of development likely to emerge over the plan period the Assessment reviewed historic completions to help in describing the types of past development delivered in Northumberland. This data must be treated with an element of caution in recognition that the pattern of future development may not reflect that of past development. Furthermore, the number of commercial and non-residential developments completed across Northumberland is far more limited than residential schemes and this is likely to continue to be the case.
- 6.4 The Council suggested to the Development Viability Panel that the Viability Assessment be based upon site typologies and hypothetical sites. The Panel supported this approach.
- 6.5 Considering different types of commercial development is important in understanding their relative viability overall. From consultation with the Development Viability Panel, it was recognised that some forms of speculative commercial development had not been viable recently. This was evidenced by the lack of development coming forward and the levels of subsidy required to enable certain schemes to be implemented. However, there was acknowledgement that this situation would be likely to change over time. It is also acknowledged that some forms of commercial development continue to be viable in current economic circumstances.
- 6.6 Table 13 below identifies the commercial and non-residential development typologies adopted in the Assessment. The rationale for defining these typologies is described in further detail in Appendix D. It should be noted that in line with Guidance, only developments of over 100 m<sup>2</sup> are included

Typology	Commercial Site Typology Definition and Use Class
A	A1 – Large Supermarket (>1500m <sup>2</sup> )
B	A1 – Small Supermarket (>280m <sup>2</sup> and <1500m <sup>2</sup> )
C	A1 – Mini Supermarket (>280m <sup>2</sup> )
D	A1 - Retail Warehouse
E	A1 – A5 Small Retail/Service
F	B1a - Town Centre Office
G	B1a - Out of Centre Office
H	B2 - Industrial/Manufacturing
I	B1c - Light Industrial
J	B8 - Storage and Distribution
K	C1 - Hotel/Out of Centre
L	D2 – Leisure

**Table 13: Commercial typologies**

- 6.7 Clearly there are many different types of commercial development and non-residential development that could come forward over the plan period that are not identified. However, it was appropriate to consider the frequency that development would occur and the role of development in the context of delivering the Core Strategy. In some instances it was clear that there would be insufficient market evidence to inform assumptions. In other instances it was clear without undertaking detailed appraisal, that a type of development was not viable in the current market.
- 6.8 Tourism development is a notable missing typology given its significance in the County. The Core Strategy describes leisure and tourism as a key economic sector supporting high levels of expenditure and jobs. However, some tourism and leisure related development is included in the typologies being tested. For example: cafes, restaurants and shops are in the most part captured in typology E. More specific tourism facilities can vary considerably and in the past have included visitor centres at major attractions such as Alnwick Castle and Gardens and the more recent addition of Northumberlandia, a landform sculpture and public park created to the west of Cramlington as part of a scheme of mitigation associated with surface mining development.
- 6.9 There have been proposals for a new holiday and leisure park close to Widdrington. The scheme would include a range of sports and leisure facilities and tourist residential accommodation. Such schemes are difficult to anticipate and there is limited market evidence to be able to appraise their viability at this time.
- 6.10 Commercial holiday accommodation is similarly a missing typology, which is an important component of Northumberland's tourism sector. Planning conditions are

sometimes used to prevent long term occupancy which means this type of accommodation is retained as holidays lets rather than permanent residences.

- 6.11 The Council has received and continues to receive a number of applications for holiday accommodation varying from conversions of agricultural buildings and new build houses to chalets and cabins. Proposals are frequently located in the North and West Delivery Areas. In visual terms these can be difficult to distinguish from general housing development. Moreover, anecdotally their rental potential and value can vary significantly. The Council canvassed some holiday let companies in Northumberland who suggested that weekly letting values and likely void periods were highly dependent not only on very precise locations but also the quality of interior fit outs. Given the limited market evidence and limitations with regard to how such accommodation can be identified, they have not been subject to viability appraisal at this time. This may be reviewed prior to submission of the Core Strategy.
- 6.12 Some very small scale development types are excluded from the Viability Assessment. Such development is unlikely to be liable for Community Infrastructure Levy charges since non-residential developments providing an addition of less than 100m<sup>2</sup> in gross additional internal floor area will be exempt from CIL.

## 7 COMMERCIAL ASSUMPTIONS

- 7.1 In respect of typologies and hypothetical schemes, various site characteristics need to be assumed. A range of evidence was utilised in this regard. Appendix E describes how assumptions were established, including sources of evidence and how stakeholder comments informed the process. The assumptions adopted in the Viability Assessment are described below.

### Site Sizes and Capacity

- 7.2 The Residual Land Valuation methodology uses costs and values based on floor area created. For each typology it was therefore necessary to understand the likely size of the development in respect of floor space and also the area of land required.

#### The developable proportion of sites

- 7.3 Development does not occur across an entire development site. A proportion of the area is taken up by other uses including the likes of access roads. The total site area is referred to as the 'gross site area' whilst the remaining area, where built development will take place is known as the 'net developable area'.
- 7.4 Different types of commercial development will take very different forms. In contrast to housing in the County, which can be more readily characterised, commercial development is far more diverse. For example, town centre offices could take the form of floor space above shops or it may be a stand-alone office development. Depending on its context it could also look very different, albeit in Northumberland it is unlikely that office development would take the form of high structures with more than around 3 or 4 storeys. Industrial development could similarly take many forms depending on the specific requirements of a particular business.
- 7.5 A sample of developments in Northumberland, within each of the typologies, was identified for further analysis (see Appendix E). Based on the data and advice, assumed net developable areas were established for different business and non-residential uses. These are set out in Table 14 below:

Typology	Definition and Use Class	Assumed Proportion of Site that is developable (%)
A	A1 – Large Supermarket	40
B	A1 - Small Supermarket	30
C	A1 – Mini Supermarket	70
D	A1 - Retail Warehouse	40
E	A1 – A5 Small Retail/Service	70
F	B1a - Town Centre	115
G	B1a – Out of Centre	50

Typology	Definition and Use Class	Assumed Proportion of Site that is developable (%)
H	B2 – Industrial/Manufacturing	40
I	B1c – Light industrial / distribution	40
J	B8 – Storage and Distribution	35
K	C1 – Hotel – out of centre	60
L	D2 – Leisure	40

**Table 14: Assumed proportion of hypothetical sites which are developable**

Development size defined as Gross Internal Area (GIA)

- 7.6 There are many factors that will influence the scale of development including the nature of any particular business, or use. Based on analysis of delivered schemes and the types of development identified through market based research that would be most likely to come forward over the plan period, assumptions about development scheme sizes were established. The assumed GIA for the range of development types considered in the Viability Assessment are defined in Table 15 below:

Typology	Definition and Use Class	Assumed GIA (m <sup>2</sup> )
A	A1 – Large Supermarket	2,500
B	A1 - Small Supermarket	1,200
C	A1 – Mini Supermarket	270
D	A1 - Retail Warehouse	2,300
E	A1 – A5 Small Retail/Service	270
F	B1a - Town Centre	1,150
G	B1a – Out of Centre	3,200
H	B2 – Industrial/Manufacturing	2,900*
I	B1c – Light industrial / distribution	3,600*
J	B8 – Storage and Distribution	6,900
K	C1 – Hotel – out of centre	2,500
L	D2 - Leisure	2,800

**Table 15: Assumed GIA of Hypothetical Sites**

\*Based on large scale development/group of smaller units

- 7.7 In respect of typologies A, B and C it is important to distinguish between large, small and mini supermarkets. In reviewing the outputs from other whole plan viability assessments nationally, it is evident that the viability of supermarket retailing varies in relation to the size of the retail unit. For this reason a medium scale supermarket typology, equivalent to the general size of unit developed by the mid-sized operators such as Lidl and Aldi, has been included in the Assessment. This is defined as Typology B in the Assessment. Development at this scale has taken place over recent years and it is considered likely that such development will occur in Northumberland during the

plan period. A Mini Supermarket Hypothetical Site has been included as Typology C to cover stores such as Sainsbury Local and Tesco Express which are designed to fit around Sunday trading laws and are expected to continue to be an area of growth during the plan period.

#### Resulting Site Size

- 7.8 Based on the assumed developable proportion of sites and scheme sizes set out in Tables 14 and 15 the anticipated size of sites required to accommodate each typology have been calculated. The assumed gross and net site sizes are set out in Table 16 below:

Typology	Definition and Use Class	Gross Site Area (ha)	Net Site Area (ha)
A	A1 – Large Supermarket	0.64	0.256
B	A1 - Small Supermarket	0.4	0.12
C	A1 – Mini Supermarket	0.04	0.028
D	A1 - Retail Warehouse	0.58	0.232
E	A1 – A5 Small Retail/Service	0.04	0.028
F	B1a - Town Centre	0.05	0.0575
G	B1a – Out of Centre	0.64	0.32
H	B2 – Industrial/Manufacturing	0.73	0.292
I	B1c – Light industrial / distribution	0.9	0.36
J	B8 – Storage and Distribution	1.99	0.6965
K	C1 – Hotel – out of centre	0.42	0.252
L	D2 - Leisure	0.7	0.28

**Table 16: Gross and net site sizes of hypothetical schemes**

## **Commercial Values**

- 7.9 To appraise matters of deliverability and to determine the gross development value of schemes, it is necessary to understand broad commercial market conditions. The Northumberland Employment Land Review and the Northumberland Employment Land and Premises Demand Study prepared to support the emerging Core Strategy provide a picture of the economic conditions and trends in the County. These reports examine the current commercial property market across Northumberland in some detail. Appendix E provides a commentary and brief synopsis of the findings from those studies captured in summary below.

#### Northumberland Commercial / Non-residential Market

- 7.10 The commercial property market was deeply affected by recession. Commercial property development has been less profitable and far riskier than it was previously. As a result, speculative property development outside London became rare. This was even more acutely felt in more economically marginal locations such as Northumberland.
- 7.11 In spite of the recession, a range of new industrial developments have taken place in Northumberland over the last 10 years or so, predominantly in the south east of the County. Notably development has taken place at Nelson Industrial Estate at Cramlington providing new accommodation from 46m<sup>2</sup> (500ft<sup>2</sup>) up to 2,787m<sup>2</sup> (30,000ft<sup>2</sup>) on a speculative basis. There have also been good quality new office developments in the County, although the extent and speed of take-up has been mixed. Northumberland Business Park in Cramlington has been the most successful in terms of disposal and occupation of new business floorspace. Elsewhere in the County the Review identifies very localised markets.
- 7.12 In looking at more recent developments, within the last three years it is apparent there has been relatively limited commercial and non-residential development completed. There has been no significant scale speculative development.
- 7.13 Commercial and non-residential development that has taken place includes:
- new industrial and warehouse buildings and extensions to existing buildings at Nelson Industrial Park in Cramlington;
  - an industrial unit at Lionheart Enterprise Park in Alnwick;
  - a paint manufacturing plant at Ashwood Business Park in Ashington;
  - a new wind turbine drive train test facility as part of the National Renewable Energy Centre in Blyth;
  - a new multiscreen cinema, leisure and retail development in Cramlington;
  - supermarket schemes in Blyth, Morpeth and Berwick; and
  - a wide range of small scale commercial schemes providing holiday accommodation in purpose built accommodation and through conversion of existing building with a particular concentration in popular coastal locations and in close proximity to the Northumberland National Park and the two Areas of Outstanding National Beauty.
- 7.14 It is unclear from an examination of recent planning applications whether there are clear signs of recovery and whether more commercial development is likely to happen

in the immediate future. However, nationally the outlook is recognised as being one of an improving position for investment in commercial development.

- 7.15 Commercial revenue data comes mostly in the form of rents and yields and is often a complex area to analyse. Commercial leasehold transactions are usually based on a rate per square foot or per square metre. However the face value will be influenced by often unknown factors such as lease terms, rent review cycles, repairing obligations, rent free periods or other incentives. Commercial freehold transactions are similarly based on values per square foot or per square metre, but are presented as capital values. They may be influenced by factors that may not be apparent in a similar way to leasehold transactions.
- 7.16 As the details behind commercial values are not often known, because they are likely to be commercially sensitive, professional judgement must be applied. The assumptions in the Viability Assessment are informed by published data including property market reports as well as anecdotal evidence, including the views expressed by stakeholders.
- 7.17 The assumptions do not capture every value in respect of the wide range of commercial uses, nor the full picture of variation across the county. Instead a proportionate and practical approach has been taken to identify reasonably representative figures using advice and professional judgement.

### **Rents**

- 7.18 A range of evidence was reviewed to analyse commercial rents as detailed in Appendix E. Limitations to the available data are recognised including that available information generally relates to old rather than new premises; and, for new development rental values were frequently not advertised and were likely to be subject to negotiated terms.
- 7.19 The assumed rental values used in the Assessment are set out by commercial use type in Table 17 below:

Commercial Use	Rental Values £m <sup>2</sup>
Industrial	£43m <sup>2</sup> - £81m <sup>2</sup>
Retail	£400m <sup>2</sup> - £499m <sup>2</sup>
Offices	£64m <sup>2</sup> - £172m <sup>2</sup>

**Table 17: Assumed rental values across Northumberland for commercial uses**

### **Yields**

- 7.20 Yields are used to calculate the 'return' on investment. The yield is influenced by factors such as: the strength of the market; prospects for rental growth; quality of location; and the terms of a lease. These all contribute to the overall security of an



investment. Yields are expressed as a percentage. In determining development value there is an inverse relationship between yields and values, that is: as the yield goes up, the value goes down. Higher risk investments usually have higher yields.

- 7.21 Yields have generally increased as a result of the recession, hence producing lower capital values. The investment market is somewhat cyclical and yields are likely to reduce over the plan period as the market strengthens. The assumed approximate yields identified in Table 18 below have been derived from a range of sources described further in Appendix E.

Typology	Definition and Use Class	Approximate yield %
A	A1 - Large supermarket	5
B	A1 small supermarket	7.5
C	A1 - Retail warehouse	7.56
D	A1 mini supermarket	6.5
E	A1 – A5- small retail/ service	7.0
F	B1a – Town Centre	7.5
G	B1a - Out of centre	7.5
H	B2 – Manufacturing	8
I	B1c – light Industrial / distribution	8
J	B8 Storage and distribution	8

**Table 18: Assumed approximate yields across Northumberland for commercial uses**

### Capitalised values

- 7.22 Based on the analysis of rents and yields and informed by professional judgment and knowledge of the Northumberland commercial market, the approximate capital values identified in Table 19 have been used in the Viability Assessment.

Typology	Definition and Use Class	Capital value per m <sup>2</sup>
<b>A</b>	A1 – Large supermarket	£2,800
<b>B</b>	A1 – Small supermarket	£2,800
<b>C</b>	A1 – Retail warehouse	£1,700
<b>D</b>	A1 mini supermarket	£2,800
<b>E</b>	A1 - A5- small retail/ service	£1,200
<b>F</b>	B1a - Town Centre	£1,400
<b>G</b>	B1a - Out of centre	£1,500
<b>H</b>	B2 - Industrial/Manufacturing	£700
<b>I</b>	B1c/ - light Industrial	£750
<b>J</b>	B8 storage and distribution	£750
<b>K</b>	C1 – Hotel – out of centre	£1,750
<b>L</b>	D2 – Leisure	£2,000

**Table 19: Assumed Capital Values across Northumberland for commercial uses**

## Commercial Development Costs

- 7.23 Development costs are variable from one scheme to another. For the purposes of the Viability Assessment, an overview of development costs from the available evidence has been used. Appendix E provides the detail behind how commercial development cost assumptions have been calculated.

### Build Costs

- 7.24 The BCIS Quarterly Review of Building Prices is commonly used as an indication of build costs. The BCIS data is expressed in £/m<sup>2</sup> of the gross internal floor area and is derived from analysis of tender prices. It is broken down according to detailed development types. The figures are described in BCIS as: *'...contract sums excluding external works and contingencies with preliminaries apportioned by value'*. A locational factor for Northumberland is applied in BCIS in recognition that the cost of building is affected by geographic location. Where the typology is likely to include more than one building type, the varying build costs have been distinguished. Build costs for commercial development applied in the Viability Assessment are defined in Table 20 below:

BCIS Building function description	Median BCIS build cost £m <sup>2</sup> (including location factor)
<b>Hypermarkets / supermarkets generally</b>	£1,231
<b>Retail warehouses generally</b>	£628
<b>Shops generally</b>	£803
<b>Café, snack bars, coffee bars, milk bars</b>	£1,918
<b>New build: Offices generally</b>	£1,304
<b>Factories generally</b>	£724
<b>Purpose built factories</b>	£781
<b>Purpose built warehouses /stores generally</b>	£612
<b>Hotels</b>	£1,491
<b>Big Box leisure (Cinema)</b>	£1,296

**Table 20: Assumed BCIS build costs across Northumberland for commercial uses**

### Additional Normal Build costs

- 7.25 In recognition that the BCIS build costs do not include contingencies or the cost of external works such as landscaping, car parking, drainage and site services an additional allowance has been made for such provision.

#### External works

- 7.26 External works will vary for commercial schemes with some requiring significantly more works than others. For example, a small town centre scheme is likely to require very limited external works compared to a new large scale out of town scheme which

may require significant investment in infrastructure. There are a number of large scale employment sites in the County which already have the benefit of services such as Ashwood business park. However, new development on such sites will still require external works such as landscaping, car parking and access for which a cost must be attributed.

- 7.27 To broadly capture the cost of external works the Viability Assessment includes an assumption of 15% on build cost across the commercial typologies with the exception of typologies E and F which cover A1-A5 retail and service uses and town centres offices. This is in recognition that the location of such development in town centres is unlikely to require any significant cost for external works.

#### Contingencies

- 7.28 Contingency is an allowance for unexpected costs that could not be reasonably anticipated at the planning stage. These can be expressed as a percentage of build cost. In view of the nature of future employment land supply an assumed contingency of 3.75% on build costs has been applied across all typologies in the Assessment.

#### **Build Costs Over Time**

- 7.29 Base build costs will vary over time. The recession saw deflated build costs for a time. These have since risen and been at relatively flat levels until more recently when they have risen again. Accounting for changes to costs and values over time is addressed in Chapter 5 of this report.

#### **Abnormal Build costs**

- 7.30 Abnormal costs could also be described as exceptional costs and as identified in RICS Guidance might include *'an unusual sewerage connection facility, high levels of site contamination and the need for extensive remedial works, flooding, site boundary and stabilisation works'* (page 41). Such abnormal costs are highly site specific and are very difficult to determine without detailed knowledge of a site and in many instances site investigation work. However, unlike the supply of land for residential development, sites for employment use are more limited and therefore are more readily identified.
- 7.31 Based on a high level analysis of land supply in the plan period, including a review of sites in the Employment Land Schedule it was considered many of the sites likely to come forward for the commercial typologies are greenfield sites. The key exception is sites around the Blyth Estuary. The former industrial uses of the area indicate a potential for land contamination issues or flood risk. Although there are specific sites with potentially high abnormal costs, in the most part it was considered abnormal costs would not be expected and therefore these have not been assumed.

### **Professional Fees**

- 7.32 Professional fees will normally include the cost of planning consultants, quantity surveyors and architects. The professional fees assumed in the Assessment are 10% of build costs. This reflects common practice in a number of similar viability appraisals and site specific viability appraisals.

### **Sales and Marketing**

- 7.33 Commercial sales and marketing costs will vary according to different development types, broad market areas and in accordance with the strength of the market. On the basis of a leased development sales and marketing fees assumed in the Assessment are 1% promotion costs, as a percentage of annual income and 10% letting / management fees.

### **Site acquisition fees**

- 7.34 Site acquisition fees assumed in the Assessment are broken down as follows: 1% agent fees; 0.75% legal fees; and Standard Rate scale for Stamp Duty Land Tax. This reflects standard site acquisition fees cited in a number of similar viability appraisals and site specific viability appraisals. It also reflects the Council's knowledge of fees incurred in respect of recent land transactions.

### **Finance costs**

- 7.35 Finance costs will vary according to the type of scheme and type of developer. For the purposes of the Viability Assessment, development is assumed to be fully debt funded. This is likely to be a cautious assumption as some schemes will not be entirely debt funded. However, this assumption is appropriate for a Viability Assessment of this nature.
- 7.36 The Bank of England Inflation report May 2016 states that: *"The Bank of England base rate has remained low at 0.5%. All members [of the Bank of England Monetary Policy Committee] agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles."*<sup>7</sup> Based on an understanding that availability of finance for many types of commercial development remains constrained, and informed by assumptions used in a number of other viability appraisals it was determined that finance costs should be assumed at a rate of 6.5% in the Assessment.

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<sup>7</sup> Bank of England Inflation Report May 2016

## Developer Profit and overhead

- 7.37 Developers profit or return is an important component of the Viability Assessment. As stipulated in the NPPF for development to be viable it should: *‘...provide competitive returns to a willing land owner and willing developer’* (paragraph 173). NPPG advises that the return on investment: *‘... will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.’* (Paragraph: 024 Reference: 10-024-20140306).
- 7.38 Developer profit assumed in the Assessment is 20% of gross development value across each typology.

## Build Periods, Lead in Times and Sales Periods

- 7.39 The assumed build periods, together with a lead in time and duration for sales or lettings have been informed by professional experience and examples where available. These periods are set out for each commercial typology in Table 21 below:

Typology	Definition and Use Class	Approximate Build, lead in and sales duration (quarters i.e. 3 month tranches)
A	A1 - Large supermarket	4
B	A1 – small supermarket	3
C	A1 - Retail warehouse	4
D	A1 – mini supermarket	2
E	A1 - A5- small retail/service	2
F	B1a - Town Centre	3
G	B1a - Out of centre	4
H	B2 – Industrial/Manufacturing	3
I	B1c/B8 light Industrial/distribution	4
J	C1 hotel - out of centre	5
K	D2 Leisure	5

**Table 21: Commercial Build Periods**

## 8 PLANNING POLICY AND OBLIGATION COSTS

- 8.1 Table 22 below identifies the policy areas contained in the emerging Core Strategy and illustrates where there are direct or indirect viability implications. This does not suggest that the other policy topics have no relevance to viability but they are less directly relevant.

Topic	Directly or indirectly relevant to viability assessment
Sustainable Development and Design	√
Scale and Spatial Distribution of development	√
Economy and employment	√
Tourism and visitor development	√
Role and Hierarchy of centres	
Leisure facilities	
Housing provision – scale and distribution	√
Strategic Delivery Sites	√
Additional housing sites	
Planning for housing including affordable housing	√
Green Belt and safeguarded land	
Principles for the environment	√
Biodiversity and Geodiversity	√
Landscape including designated areas	√
Historic environment and heritage assets	√
Water quality	√
Water supply and sewerage	√
Flooding and Sustainable Drainage	√
Coastal erosion and coastal change management	√
Unstable and contaminated land	√
Promoting Sustainable Connections	√
Roads and Rail	√
Newcastle International Airport and Ports and Harbours	
Planning for communication infrastructure	
Community services and facilities	√
Open space and facilities for sport and recreation	√

Topic	Directly or indirectly relevant to viability assessment
Green infrastructure	√
Mineral resources	
Waste re-use, recycling, recovery and disposal	
Renewable and low carbon energy development	
Planning for Infrastructure	√
Planning Conditions and Obligations	√

**Table 22: Summary of policies and relevance to viability**

- 8.2 Although Table 22 identifies policy areas having direct relevance to the Viability Assessment, all of the policies within each topic are not always relevant nor do policies equally apply to residential and non-residential development. The policies are therefore only tested against the type of development to which they apply. Notably, commercial development is not subject to many policy requirements with direct relevance for testing viability. The exception to this is in respect of sustainable design and construction.
- 8.3 Appendix F explains the links between policies and how the policies have been appraised as part of the Viability Assessment.

### **Other Considerations**

#### Building Regulations

- 8.4 In December 2006, the UK Government committed to ensuring all new homes would be 'zero carbon' from 2016 and introduced the Code for Sustainable Homes, against which all new homes would be rated, on a range of different sustainability measures.
- 8.5 In April 2014 changes to Part L of the Building Regulations were introduced. These changes were an important step towards zero carbon. Further changes were proposed from 2016 in line with the zero carbon agenda. However, in June 2015 the Government announced that it: *'... does not intend to proceed with zero carbon Allowable Solutions carbon offsetting scheme, or the proposed 2016 increase in on-site energy efficiency standards, but will keep energy efficiency standards under review'*. As there are no imminent changes to Regulations no additional costs have been assumed in relation to zero carbon development.

#### Planning Conditions and Planning Obligations

- 8.6 In seeking to meet criteria proposed through policies in the emerging Core Strategy in order to make development acceptable in planning terms, the use of conditions

attached to planning permissions and the use of planning obligations will continue to be necessary. Some existing planning obligation requirements will potentially be subsumed within CIL. However, there will continue to be site specific requirements, which will need to be addressed through conditions or planning obligations.

- 8.7 In determining a reasonably representative assumption for planning obligation costs, the Council has reviewed and monitored a sample of schemes and their related Section 106 Agreements (see Appendix C).
- 8.8 The evidence demonstrates significant variation across the County in part reflecting the respective planning policy requirements of the former districts. Given this variance, a meaningful average could not be identified. Relying on previous contributions also failed to recognise that the CIL would replace some of those costs. Furthermore it failed to recognise restrictions on the pooling of contributions achieved through planning obligations.
- 8.9 As with all other assumptions, there will be variations according to individual schemes and many schemes will come forward without the need for any planning obligations. Informed by the sample study of schemes, the policy requirements of the emerging Core Strategy and applying professional judgement an assumed sum of £500 per dwelling has been adopted. This is an assumption applied purely for the purposes of this Viability Assessment. In reality planning obligations need to be determined on a site by site basis. Recognising this to be the case, a sensitivity test was applied to the Viability Assessment results which considers variations in planning obligation contributions and the balance between planning obligations and the CIL.

## **Cumulative Impacts**

- 8.10 Considering the cumulative impact of the plan policies, rather than treating policies in isolation is a key principle of the Viability Assessment approach. The NPPF states: *'Local planning authorities...should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards.'*
- 8.11 The Viability Assessment modelling has enabled analysis of each of the policy requirements in isolation and alongside one another to ensure that cumulative impacts are properly considered.

### **Future standards, documents and policies**

- 8.12 This Viability Assessment will be used to inform any future proposed planning policy documents that would comprise part of the statutory development plan including any that may set standards, allocate land or define more specific development



management policies. It will additionally be shared with town and parish councils engaged in or considering preparing neighbourhood plans.

#### **Existing standards, documents and policies**

- 8.13 The statutory development plan for Northumberland comprises a number of saved policies contained in the former District and County Council plans. They have been brought together under what is termed the Northumberland Consolidated Planning Policy Framework. For the purposes of this Viability Assessment an initial broad brush analysis of all of existing policies has been undertaken. Appendix F provides a summary of the analysis.
- 8.14 It should be noted that the analysis at this stage represents a high level assessment. It identifies only those policies considered to potentially have a direct impact on development viability. It is important to recognise, that some more strategic level policies such as those setting out good planning principles generally do not have direct implications for viability beyond those associated with bringing forward development in a sustainable manner as required by national policy and guidance.
- 8.15 Where there are site or location specific policies, such as those prescribed in existing Supplementary Planning Documents, no additional development costs were identified. These costs are either considered to have been accounted for or have been determined to have limited relevance in a whole plan viability assessment.
- 8.16 The analysis concludes that there are no policies or other requirements which are likely to represent costs or burdens over and above what is being assessed as part of this Viability Assessment. In considering existing policy requirements it is important to note that certain policies may be afforded more limited weight in decision making as they become more out of date. The relative cost can accordingly become increasingly inconsequential.

## 9 LAND VALUES

- 9.1 Chapter 3 of this report illustrates the Residual Land Value equation and describes the approach to determining land values employed in this area wide whole plan Viability Assessment. The Assessment uses the concept of 'Threshold Land Values' (TLV) as a means of interpreting the results of the residual land value equation. TLV is the value at which a land owner would be typically willing to sell their site. Ultimately, a value lower than the calculated TLV will mean that typical reasonable landowners' expectations are not met. They will not sell their land, opting to hold on to it in its current use, potentially with a view to selling it at some point in the future when they think they may get better value.
- 9.2 The Harman Guidance advocates a particular approach to identifying TLV. It recommends that these should be based on a premium over Existing Use Values (EUV), and credible Alternative Use Values (AUV).
- 9.3 EUV is the value of land in its current use before planning consent is granted. AUV are the values associated with any other potential realistic use for the site. The relevance of credible AUV is recognised as being appropriate only where there is competition for land among a range of alternative uses. For example, in a city centre there is more likely to be competition for land to provide a range of uses such as offices, retail, hotels and residential all of which may be acceptable in planning terms. In Northumberland such competition is a less significant issue. The approach is predicated on the basis that it is necessary to determine if there is another use which could generate more value than the proposed development. If that is demonstrated then the development will not happen.
- 9.4 The Harman Guidance recommends that the precise premium above the existing and alternative use value should be determined locally and importantly must represent a sufficient premium to persuade a land owner to sell. This approach accords with reference in the NPPF to the need to provide a competitive return to a willing land owner.
- 9.5 Recognising that land values are a key component of the Viability Assessment, and that establishing appropriate Threshold Land Values can be a complex matter, the Council appointed the District Valuer Service (DVS) to critically review the approach used in earlier draft versions of the Viability Assessment and to assist in determining appropriate evidence based Threshold Land Values. The DVS's analysis is published separately in their report to the County Council: 'Analysis of Northumberland Threshold Land Values' (September 2015). The Council's approach to establishing TLV is described in more detail in Appendix G. Importantly the analysis looked to distinguish between brownfield and greenfield sites.

- 9.6 In view of the critical analysis, additional evidence collected and professional advice, Threshold Land Value conclusions appropriate to Northumberland can be summarised as follows:

### **Greenfield sites**

- 9.7 Threshold Land Values for Greenfield sites used in the Assessment are described in Table 23 below. These values will vary depending on the nature of the location and related residential values. For significantly larger strategic sites, a level of discount is appropriate to reflect quantum.

House price range (£m <sup>2</sup> )	Suggested TLV £ per gross acre
Sub £1,750	100,000 – 130,000
£1,750 - £2,250	130,000 – 150,000
Over £2,250	Over 150,000

**Table 23: Residential Value Bands and suggested TLV**

### **Brownfield sites**

- 9.8 Threshold Land Values for brownfield sites are potentially subject to a greater level of variance owing to a greater impact of locational factors, CUVs and AUVs. This makes it more difficult to provide average TLVs for brownfield sites for the purposes of an area wide appraisal compared with greenfield sites. Notwithstanding the complexities, a rate of between £75,000 to £125,000 per gross acre has been defined with the support of the DVS as fair and reasonable benchmark for secondary and tertiary industrial land. The upper end of this range is generally in line with some of the evidence identified.
- 9.9 As for the many other brownfield site types, the underlying value of the site fluctuates significantly depending on the nature of the existing use. For the purposes of this Viability Assessment it was not considered appropriate to try and establish an average TLV across each use type.

## **10 VIABILITY ASSESSMENT FINDINGS**

### **Introduction**

- 10.1 This Viability Assessment forms part of a comprehensive evidence base created to support the emerging Core Strategy all of which seeks to demonstrate that the Core Strategy is sound. Its findings don't in themselves determine the policies of the Core Strategy, but provide evidence and informed judgement about the viability of introducing those policies. The results have been considered and balanced alongside the whole of the evidence base created to support the emerging Core Strategy
- 10.2 The preparation of this Viability Assessment is an iterative process. This report presents the most recent assumptions and outputs generated through modelling exercises undertaken to establish the extent to which the emerging Core Strategy is viable and therefore deliverable. This report provides an updated position following publication of an initial Interim Report in December 2014 and the subsequent Viability Assessment Report published in October 2015 which supported publication of the Core Strategy Pre-Submission Draft Plan.
- 10.3 The Interim Report (December 2014) provided the Council's preliminary viability testing results which established a profile of viability across the range of agreed site typologies. Work undertaken to review these findings with the support of the DVS resulted in publication of the Viability Assessment report in October 2015. That report was prepared having regard to a review of Threshold Land Values, and some site specific viability modelling undertaken by the DVS. This included a review of inputs and assumptions used in the modelling exercises.

### **Viability Assessment Conclusions: October 2015**

- 10.4 The results presented in October 2015 effectively created a baseline appraisal arising from viability modelling undertaken using the assumptions described in that report. Results were presented separately for residential and commercial development based on the typologies created and agreed through the Development Viability Panel.

### **Residential Development**

- 10.5 The results from modelling for residential typologies were presented in graphic form as a 'traffic light' system which provided interim conclusions about the viability of each of the site typologies: green means development of that hypothetical site is viable; amber means that the typology is at the margins of viability; and red means that the typology would not be viable because the residual land value generated in modelling would be less than the TLV. The results created in that report for the

residential typologies is presented in Table 24 below. These describe the extent of development viability having regard to the ability of each typology in each value band area to support affordable housing. The proportion of affordable housing that could be supported in each typology is identified in Table 24

Typology	Hypothetical Sites	Viable (Red, Amber, Green) and Level of Potentially Viable Affordable Housing			
		Highest Value Band	High Value Band	Medium Value Band	Low Value Band
<b>Strategic Scale Settlement expansion</b>	Extension of a main town in an urban area comprising 400 dwellings. Predominantly brownfield.	50%	35%		
	Extension of a main town or service centre. Comprising 350 dwellings. Greenfield.	47%	31%		
<b>Strategic Scale Settlement expansion including flatted development</b>	Extension of a main town or service centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.	59%	47%	14%	
<b>Significant scale main town or service centre infill or expansion</b>	Extension or infill of main town or service centre comprising 200 dwellings. Greenfield.	50%	35%		
	Extension or infill of main town or service centre comprising 200 dwellings. 50:50 Greenfield, Brownfield mix.	56%	43%	6%	
<b>Large scale settlement infill or expansion</b>	Settlement infill or expansion comprising 60 dwellings. Greenfield.	52%	38%	1%	
	Settlement infill or expansion comprising 40 dwellings. Predominantly brownfield.	55%	41%	3%	
<b>Medium scale development</b>	Settlement infill or expansion comprising 20 dwellings. 50:50 Greenfield, Brownfield mix.	51%	36%		
	Settlement infill or expansion comprising 16 dwellings. Greenfield.	43%	26%		
<b>Small Scale development</b>	Settlement infill or expansion comprising 10 dwellings. Greenfield	46%	30%		
	Out of settlement rural development comprising 6 dwelling 50:50 brownfield and greenfield mix	56%	43%	9%	
<b>Minor scale development</b>	1 dwelling development, not in a settlement, Agricultural brownfield land, 0.22 ha	N/A	N/A	N/A	N/A
	1 dwelling development, in a settlement, 0.11ha	N/A	N/A	N/A	N/A
	1 dwelling development, greenfield site, 0.18 ha	N/A	N/A	N/A	N/A
	2 dwelling development, brownfield, in a settlement 0.3	N/A	N/A	N/A	N/A

**Table 24: Viability Assessment results for Residential Typologies (October 2015 Report)**

10.6 The results produced at that time identified some challenges to development viability for housing schemes based on assumptions employed in the Assessment. This was particularly evident in low value areas across most hypothetical typologies and in some typologies in the medium value areas. The key findings from that Assessment show that:

- Other than in low value areas the residual land value is positive;
- In medium value areas, although residual land value is positive it does not always exceed TLV;
- There are significant differences in residual land value across the different value bands identified for the purpose of the Assessment ;
- A wide variation in the scale of affordable housing that could be achieved is evident across the value bands;

- Viability of small scale development varies;
  - Residential development in low value areas is generally not viable using assumptions adopted in the Assessment;
  - Residential development in the high and highest value areas shows a significant surplus and can provide substantial proportions of affordable housing.
- 10.7 The outcome of the Assessment results is described in some detail in the report published in October 2015. These are not repeated in detail in this report. In general terms that report concluded that, whilst there are challenges to development viability when adopting the assumptions employed in this area wide Assessment, having regard to the available evidence, to professional judgement, and to the spatial objectives of the emerging Core Strategy, particularly in relation to regeneration, the strategy of concentrating a significant amount of new housing development in the south east of the County is appropriate, notwithstanding this area being generally defined as low or medium value for housing development.
- 10.8 These conclusions recognised that, in theoretical terms, delivery of new housing may be difficult in lower value areas. However, evidence points to development taking place in low and medium value areas, apparently in contradiction of the outcomes of the Assessment. Additional support has been commissioned to review these findings and is presented in the reports prepared by DVS and in the Interim Draft Housing Delivery Report (June 2016) which presents specific evidence of current and recent housing delivery across low and medium value areas in Northumberland.

### **Commercial Development**

- 10.9 Results of viability modelling, based on residual land value calculations, for each of the hypothetical commercial and non-residential development typologies was presented in summary in the October 2015 report. Table 25 below provides the commercial assessment results in summary based on commercial use types defined in BCIS and relevant to Northumberland. In Table 25 black text indicates that the typology shows a surplus in value, red text and shading shows a deficit.
- 10.10 The findings indicate that most speculative commercial development is not currently viable in Northumberland. This is supported by commercial market commentary and is a view supported by the Development Viability Panel. The main exception to these conclusions is that supermarket development of all sizes remains viable. Retail warehouses were shown to be viable as are some forms of offices and smaller shops. The conclusions reached indicated that, subject to further detailed investigation, scope exists to consider the introduction of CIL for some of the more viable commercial development typologies, particularly supermarkets.

Commercial development types identified in BCIS	Total Surplus or Deficit (Residual Land Value minus Threshold Land Value) (£)	Surplus or deficit per gross hectare (£)
A1 - Large Supermarket	2,086,540	3,260,219
A1 - Small Supermarket	1,001,662	2,504,156
A1 - Mini Supermarket	225,220	5,630,501
A1 - Retail Warehouse	1,403,374	2,419,611
A1-A5 - Small Retail/Service (shops generally)	13,062	326,540
A1-A5 - Small Retail/Service (café's, snack bars, coffee bars, milk bars )	-376,326	-9,408,148
B1a - Town Centre - New build Offices with shops, banks, flats etc	-393,149	-7,862,976
B1a - Town Centre - New build Offices generally	-551,168	-1,1023,360
B1a - Town Centre - Rehab/Conv - Offices with shops, banks flats etc	-1,380,419	-27,608,384
B1a - Town Centre - Rehab/Conv - Offices generally	233,334	4,666,688
B1a - Out of Centre - New build Offices with shops, banks, flats etc	-581,393	-908,427
B1a - Out of Centre - New build Offices generally	-1,021,099	-1,595,467
B1a - Out of Centre - Rehab/Conv - Offices with shops, banks flats etc	-3,328,581	-5,200,907
B1a -Out of Centre - Rehab/Conv - Offices generally	1,161,864	1,815,413
B2 - Industrial / Manufacturing - Factories generally	-1,056,231	-1,446,891
B2 - Industrial / Manufacturing - Purpose Build Factories	-1,440,223	-1,972,908
B1c/B8 - Light Industrial / Distribution - Warehouses/Stores/Generally	-277,327	-308,141
B1c/B8 - Light Industrial / Distribution - Purpose built warehouses	-338,682	-376,313

Table 25: Viability Assessment results for Commercial Development Typologies (Oct 2015 Report)

## Scrutiny, Review and Support

- 10.11 Consideration of the findings of the Interim Viability Assessment Report (December 2014) led to the Council seeking professional support to review the assumptions employed in the Assessment. The District Valuer Service was commissioned to critically review the initial findings of the Assessment and to offer support to the County Council in establishing appropriate Threshold Land Values. The DVS subsequently provided support in testing the viability of a range of hypothetical sites and a range of 'real world' sites with a view to establishing the extent to which the

challenging viability outcomes evident in some areas of the County would realistically impede the implementation and delivery of the objectives and policies contained in the emerging Core Strategy. The DVS reports published in support of this Assessment are as follows:

- ‘Undertaking of 4 Site Development Appraisals’ (September 2015);
- ‘Analysis of Northumberland Threshold Land Values’ (September 2015);
- ‘Hypothetical Site Types – Development Appraisals’ (May 2016); and
- ‘Real Site Types – Development Appraisals’ (June 2016).

10.12 The outcomes from the DVS reports published in September 2015 informed the preparation of the Council’s Viability Assessment report published in October 2015. A summary of the DVS conclusions is given in that Viability Assessment report and is not repeated here. However, those conclusions have informed the findings to date on the Viability Assessment.

10.13 The conclusions from the more recent DVS Development Appraisal reports published in May and June 2016 have informed the conclusion of the Assessment set out in this report. Support from the DVS in providing this critical review and additional viability assessment modelling has been supplemented by evidence collected by the County Council from a review of its monitoring records.

10.14 The Council has reviewed the available evidence on housing delivery in seeking to demonstrate the extent to which development is taking place in those areas where viability appears to be challenging. The findings are presented in an interim draft report demonstrating by example the current and recent activity on a range of housing sites across low and medium value areas in Northumberland: Northumberland Local Plan Draft Core Strategy and Community Infrastructure Levy Viability Assessment: Interim Draft Housing Delivery Report (June 2016). It is intended that this report will be updated as the emerging Core Strategy progresses to Examination and it should be read alongside this Viability Assessment report.

### **District Valuer Service Development Appraisal Reports**

10.15 The DVS has undertaken viability appraisals of all the hypothetical residential and commercial site typologies defined in this Viability Assessment. The residential typologies have been tested separately in each of the four development value areas. The commercial typologies have been tested on greenfield and brownfield sites. The full results of these appraisals are available in the relevant DVS reports. The DVS development appraisals applied each of the assumptions described earlier in this report. The appraisals also applied a range of sensitivity tests to establish the impact



of additional reasonable assumptions on scheme and typology viability. The baseline results confirmed the Council's general conclusions arising from the viability modelling published in the Interim Report (December 2014).

### **Residential hypothetical site types viability appraisals (May 2016)**

- 10.16 Following the completion and publication of the Council's investigation into the viability of the range of site and development typologies identified as being appropriate for the purposes of this Viability Assessment, the DVS was commissioned to provide a review of the conclusions originally presented in the Council's Interim Viability Assessment Report (December 2014) and the Draft Viability Assessment (October 2015).
- 10.17 The DVS tested each of the 16 hypothetical residential site typologies across all four value areas using the HCA DAT modelling tool providing 64 individual site appraisals. Modelling applied an assumption that affordable housing would be delivered on-site at a rate of 15%. This assumption was applied to all site typologies notwithstanding the continuing uncertainty over requirements for affordable housing to be delivered on or from sites of less than 10 dwellings. The appraisals undertaken recognised that TLV may vary between value areas and accordingly TLV was adjusted to reflect each value area.
- 10.18 On completion of the baseline appraisal various sensitivity tests were undertaken. These are intended to demonstrate what, in the opinion of the DVS, may constitute reasonable and likely variances to the appraisal inputs employed in the Viability Assessment when sites are developed in the market. The sensitivity tests applied are as follows:
- Reduced abnormal costs on brownfield sites;
  - Reduced build costs;
  - Reduced professional fees;
  - Inclusion of a 20% affordable housing policy based on the 'Starter Home' tenure model, replacing the affordable rent and intermediate tenure bases; and
  - Development of residential site typologies 1 – 7 (inclusive) by 'low cost housing' specialists (such as Keepmoat, Gleeson, Lovells, Kier etc).
- 10.19 The initial viability assessment provides the outcome of Core Strategy policy compliant schemes tested on each site typology in each value area. The results are summarised in Table 26 below. The conclusions demonstrate the challenging theoretical viability circumstances evident particularly in low and medium value

areas of the County. This generally reflects the outcomes from modelling undertaken by the Council and published in the Draft Viability Assessment (October 2015).

Typology	Typology Reference	Hypothetical Sites	Viable (No (Red), Marginal (Amber), Yes (Green))			
			Highest Value Band	High Value Band	Medium Value Band	Low Value Band
<b>Strategic Scale Settlement expansion</b>	Type 1	Extension of a main town in an urban area comprising 400 dwellings. Predominantly brownfield.				
	Type 2	Extension of a main town or service centre. Comprising 350 dwellings. Greenfield.				
<b>Strategic Scale Settlement expansion including flattened development</b>	Type 3	Extension of a main town or service centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.				
<b>Significant scale main town or service centre infill or expansion</b>	Type 4	Extension or infill of main town or service centre comprising 200 dwellings. Greenfield.				
	Type 5	Extension or infill of main town or service centre comprising 200 dwellings. 50:50 Greenfield, Brownfield mix.				
<b>Large scale settlement infill or expansion</b>	Type 6	Settlement infill or expansion comprising 60 dwellings. Greenfield.				
	Type 7	Settlement infill or expansion comprising 40 dwellings. Predominantly brownfield.				
<b>Medium scale development</b>	Type 8	Settlement infill or expansion comprising 20 dwellings. 50:50 Greenfield, Brownfield mix.				
	Type 9	Settlement infill or expansion comprising 16 dwellings. Greenfield.				
<b>Small Scale development</b>	Type 10	Settlement infill or expansion comprising 10 dwellings. Greenfield				
	Type 11	Settlement infill or expansion comprising 10 dwellings. Brownfield				
	Type 12	Out of settlement rural development comprising 6 dwelling 50:50 brownfield and greenfield mix				
<b>Minor scale development</b>	Type 13	1 dwelling development, not in a settlement, Agricultural brownfield land, 0.22 ha				
	Type 14	1 dwelling development, in a settlement, 0.11ha				
	Type 15	1 dwelling development, greenfield site, 0.18 ha				
	Type 16	2 dwelling development, brownfield, in a settlement 0.3				

**Table 26: Summary of initial residential viability testing undertaken by DVS (May 2016)**

10.20 The results generally show that development in high and highest value areas are viable. However, they also demonstrate some pressure on development typologies 13 to 16, all of which comprise small scale single or 2 dwelling schemes. The DVS comment that, from the available evidence, it is clear that residential development has taken place in the last few years, and continues to take place, in low to medium value areas, even with the financial burden of having to provide affordable housing. Likewise, small 1 or 2 dwelling schemes have also taken place across the County. In this regard, the results shown above do not appear to support the reality of site delivery across Northumberland. In the opinion of the DVS the outcomes from the appraisals may be down to the inputs within the appraisals being overly cautious.

10.21 Of the total sample of 64 hypothetical site scenarios, 38 returned an unviable (29 appraisals) or marginally viable (9 appraisals) scheme when tested using the assumptions described in this Viability Assessment. The DVS applied the sensitivity tests described above (with the exception of the low cost developer test) to each of the sites in isolation and cumulatively. In each instance viability was improved, albeit marginally for amended assumptions on abnormal costs and professional fees. However, amended assumptions on build costs had a significant positive impact on viability. Changing affordable housing tenure basis to Starter Homes also had a positive impact on the number of schemes becoming viable.

10.22 Applying the sensitivity tests cumulatively results in a significant improvement in the number of typologies returning a viable scheme. In terms of the whole sample of 64 schemes, when the cumulative effect of applying the four sensitivity tests is taken into account, 51 of the 64 typologies are identified as being viable, that is c. 80%. This is demonstrated in Table 27 below:

Typology	Typology Reference	Hypothetical Sites	Viable (No (Red), Marginal (Amber), Yes (Green))			
			Highest Value Band	High Value Band	Medium Value Band	Low Value Band
<b>Strategic Scale Settlement expansion</b>	Type 1	Extension of a main town in an urban area comprising 400 dwellings. Predominantly brownfield.				
	Type 2	Extension of a main town or service centre. Comprising 350 dwellings. Greenfield.				
<b>Strategic Scale Settlement expansion including flatted development</b>	Type 3	Extension of a main town or service centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.				
<b>Significant scale main town or service centre infill or expansion</b>	Type 4	Extension or infill of main town or service centre comprising 200 dwellings. Greenfield.				
	Type 5	Extension or infill of main town or service centre comprising 200 dwellings. 50:50 Greenfield, Brownfield mix.				
<b>Large scale settlement infill or expansion</b>	Type 6	Settlement infill or expansion comprising 60 dwellings. Greenfield.				
	Type 7	Settlement infill or expansion comprising 40 dwellings. Predominantly brownfield.				
<b>Medium scale development</b>	Type 8	Settlement infill or expansion comprising 20 dwellings. 50:50 Greenfield, Brownfield mix.				
	Type 9	Settlement infill or expansion comprising 16 dwellings. Greenfield.				
<b>Small Scale development</b>	Type 10	Settlement infill or expansion comprising 10 dwellings. Greenfield				
	Type 11	Settlement infill or expansion comprising 10 dwellings. Brownfield				
	Type 12	Out of settlement rural development comprising 6 dwelling 50:50 brownfield and greenfield mix				
<b>Minor scale development</b>	Type 13	1 dwelling development, not in a settlement, Agricultural brownfield land, 0.22 ha				
	Type 14	1 dwelling development, in a settlement, 0.11ha				
	Type 15	1 dwelling development, greenfield site, 0.18 ha				
	Type 16	2 dwelling development, brownfield, in a settlement 0.3				

**Table 27: Summary of cumulative impact of sensitivity testing on hypothetical sites (May 2016)**

10.23 The DVS recommended that a sensitivity test be applied to the medium and larger scale residential typologies to reflect the likely activity in the market of a group of low cost housebuilders who generally operate a different economic model to mainstream regional and national housebuilders. This test was applied to site typologies 1 to 7 (inclusive) and is specifically relevant in looking at scheme viability in a hypothetical scenario in the low value areas of Northumberland. The viability modelling demonstrated an improvement in the viability outcome to four of the seven site types in the low value areas all changing from unviable to viable. Type 5 remained unviable when applying this test but showed only a small deficit in comparison to the scale of development. This is shown in Table 28 below:

Typology	Typology Reference	Hypothetical Sites	Value Band	Viable: No (Red); Marginal (Amber); Yes (Green))
Strategic Scale Settlement expansion	Type 1	Extension of a main town in an urban area comprising 400 dwellings. Predominantly brownfield.	Low	
	Type 2	Extension of a main town or service centre. Comprising 350 dwellings. Greenfield.	Low	
Strategic Scale Settlement expansion including flatted development	Type 3	Extension of a main town or service centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.	Low	
Significant scale main town or service centre infill or expansion	Type 4	Extension or infill of main town or service centre comprising 200 dwellings. Greenfield.	Low	
	Type 5	Extension or infill of main town or service centre comprising 200 dwellings. 50:50 Greenfield, Brownfield mix.	Low	
Large scale settlement infill or expansion	Type 6	Settlement infill or expansion comprising 60 dwellings. Greenfield.	Low	
	Type 7	Settlement infill or expansion comprising 40 dwellings. Predominantly brownfield.	Low	

**Table 28: Sensitivity testing on viability of low cost housing development (May 2016)**

10.24 In considering the overall outcome of the development appraisals of hypothetical residential site types the DVS concludes that initial testing showed that schemes within high and highest value areas were viable, whereas schemes within medium and low value areas were generally unviable. This clearly contradicts site delivery in

the County as demonstrated by the available evidence held by the Council. Schemes in low and medium value areas have come forward in recent years, and they continue to be promoted. Those sites that have, or are being, developed have also provided affordable housing and other S106 contributions demonstrating that, in reality, they are not unviable nor are they at the margins of viability.

- 10.25 The DVS comment that, in their opinion, a number of the appraisal inputs used in the baseline Viability Assessment are overly cautious and in reality are likely to be subject to change in the market place. Sensitivity tests have been applied to certain assumptions to reflect likely changes to the appraisal inputs when the schemes would be implemented in the market place, based on evidence held by DVS.
- 10.26 The data shows that if professional fees and abnormal costs are reduced in isolation, the impact on the viability outcome is positive, but fairly limited. The impact of introducing 20% Starter Homes to schemes has a positive impact on viability. However, the most significant impact arises when build costs are reduced from the BCIS rates to costs that are more consistent with other evidence held by DVS. This is further evident when it is specifically assumed a low-cost house builder specialist would implement the scheme. In each case a number of previously unviable schemes are shown to be viable.
- 10.27 The cumulative impact of the suggested changes to professional fees, build costs, abnormal costs and the introduction of 20% Starter Homes on schemes was tested in the appraisals. In the current market place, and based on evidence held by DVS the application of these assumptions cumulatively is considered by the DVS to be a reasonable approach. The impact is significant on the outcomes of the Assessment.

#### **Real site residential development viability appraisals (June 2016)**

- 10.28 Viability appraisals were prepared by the DVS for a sample of 13 potential housing sites across Northumberland. The purpose of the work was to test real sites by way of a sense check of the Viability Assessment findings produced from the Council's initial viability modelling in respect of sites typologies. This type of sense check exercise is advocated in the Harman Guidance.
- 10.29 Initially four sites were chosen from the Council's SHLAA interim report from December 2014. The findings of those four site development appraisals are presented in the DVS development appraisal report dated September 2015, along with the methodology employed in undertaking the appraisals and some detailed commentary on data sources and market conditions. Sensitivity analysis regarding the scale of affordable housing that could be achieved was included in that appraisal. The detail included in that report and conclusions arising from the appraisals were described in the Council's Viability Assessment report published in October 2015 and

are described in Table 24 above. The outcome of that work is reflected in the conclusions to date in the Viability Assessment.

10.30 In order to present further robust evidence regarding residential development viability an additional 9 sites were chosen from the SHLAA report from October 2015. These sites are therefore seen as reasonably representative of potential ‘real world’ development sites rather than hypothetical scheme typologies used in other development appraisals which provide the modelling evidence in support of this Viability Assessment. Individual site characteristics and location are taken into account in the site specific appraisals. The outcome of those site appraisals which was undertaken using the HCA DAT appraisal model is presented in the DVS development appraisal report dated June 2016 and is summarised below.

10.31 The sites chosen have been anonymised, but are presented by location and size for general reference purposes in Table 29 below.

Site Name	Delivery Area	Type	Settlement	Gross Area (Ha)
<b>Site E</b>	Central	Main Town	Ponteland	8.12
<b>Site F</b>	Central	Main Town	Hexham	0.98
<b>Site G</b>	Central	Main Town	Prudhoe	21.95
<b>Site H</b>	North	Main Town	Berwick	10.70
<b>Site I</b>	North	Service Centre	Wooler	1.03
<b>Site J</b>	West	Main Town	Haltwhistle	2.91
<b>Site K</b>	South East	Service Centre	Seaton Delaval	3.29
<b>Site L</b>	South East	Main Town	Blyth	4.46
<b>Site M</b>	South East	Main Town	Ashington	7.36

**Table 29: ‘Real world’ sites appraised by DVS (June 2016)**

10.32 For each of the sites identified in Table 29 the DVS tested the Council’s draft policy for affordable housing, which requires a 15% on-site provision where possible. An allowance equivalent to £500 per dwelling is also assumed to cover additional Section 106 planning obligation costs. Various sensitivity tests were applied to the baseline assessment based on DVS experience and evidence, to demonstrate what is considered to be likely variances to the appraisal inputs applied. The sensitivity tests applied were:

- Reduced abnormal costs on brownfield sites;
- Reduced build costs;
- Reduced professional fees; and
- Inclusion of a 20% affordable housing policy based on the ‘Starter Home’ tenure model, replacing the affordable rent and intermediate tenure bases.

- 10.33 The outcome of the initial testing by DVS demonstrated that only 2 of the 9 sites returned a viable scheme. These were located in the 'high and 'highest' value areas. This suggests that development in 'low' and 'medium' value areas are more likely to return an unviable scheme when applying the assumptions used in the Assessment. This outcome reflected the modelling undertaken on hypothetical sites by both the Council and by the DVS. In respect of this apparently challenging outcome the DVS has commented that it is evident that development has taken place in recent years in all value areas and development is continuing to take place across the range of value areas identified in this Assessment. This is clearly evidenced by the Council's Interim Draft Housing Delivery Report (June 2016), prepared in support of this Assessment.
- 10.34 The results of these real site development appraisals do not appear to support the reality of site delivery across Northumberland. It is suggested by the DVS that this may be because the inputs used in the appraisals are overly cautious.
- 10.35 In applying the sensitivity analysis defined above each of the tests returned improvements in scheme viability. However, none of the tests on their own resulted in all of the sites returning a viable outcome. The most significant impact on scheme viability comes about from the application of a sensitivity test that presents build costs at a rate reduced from BCIS. The DVS present their opinion in their report that the build costs applied through the sensitivity testing is more consistent with their experience and other evidence held by the DVS rather than BCIS build costs.
- 10.36 A cumulative sensitivity test applying all four changes has been undertaken. When the reduction in professional fees, build costs, abnormal costs and the introduction of 20% Starter Homes on each scheme are applied cumulatively all of the nine schemes return a viable outcome. The DVS comment that the application of all of these sensitivity tests cumulatively is a reasonable assumption and the outcomes are backed by evidence of the reality of current housing delivery in Northumberland.

#### **Commercial hypothetical site types development appraisals (May 2016)**

- 10.37 The DVS has undertaken development appraisals of the commercial site typologies identified by the Council, with the support of the Development Viability Panel, for appraisal as part of this Viability Assessment. The development appraisals have been undertaken using the Argus Development Appraisal Toolkit (Argus) which is recognised as an industry approved program designed specifically residual/ viability appraisals focussed principally on commercial development. The results of this appraisal are presented in the DVS Report published in May 2016. The extent of hypothetical scheme viability is shown in Table 30 below:

Typology	Definition and Use Class	Viable (Yes (Green), Marginal (Amber), No (Red))
A	A1 – Large supermarket (Greenfield)	
	A1 – Large supermarket (Brownfield)	
B	A1 – Small supermarket (Greenfield)	
	A1 – Small supermarket (Brownfield)	
C	A1 – Mini supermarket (Greenfield)	
	A1 – Mini supermarket (Brownfield)	
D	A1 – Retail warehouse (Greenfield)	
	A1 – Retail warehouse (Brownfield)	
E	A1 - A5- small retail/ service (Greenfield)	
	A1 - A5- small retail/ service (Brownfield)	
F	B1a - Town Centre (Brownfield)	
G	B1a - Out of centre (Greenfield)	
	B1a - Out of centre (Brownfield)	
H	B2 - Industrial/Manufacturing (Greenfield)	
	B2 - Industrial/Manufacturing (Brownfield)	
I	B1c/ - light Industrial (Greenfield)	
	B1c/ - light Industrial (Brownfield)	
J	B8 - storage and distribution (Greenfield)	
	B8 - storage and distribution (Brownfield)	
K	C1 – Hotel – out of centre (Greenfield)	
	C1 – Hotel – out of centre (Brownfield)	
L	D2 – Leisure (Brownfield)	

**Table 30: Summary of hypothetical commercial site typologies modelling results (May 2016)**

10.38 The data shows:

- Site Types A and B (A1 supermarkets either large or small) are shown to be viable, each returning a significant surplus (over £800,000 in one case). Each of these site types is therefore considered to be capable of supporting a CIL charge. DVS suggest that this could be equivalent to circa £100 to £150 per sq m (when a ‘buffer’ allowance equivalent to circa 50% is factored in to ensure this charge does not undermine viability);
- Site Type C is also shown to be viable, being an A1 ‘mini’ supermarket. Again, the surplus generated is significant and therefore this site type is considered suitable for the application of a CIL charge calculated this as being equivalent to circa £250 to £300 per sq m (when a ‘buffer’ allowance equivalent to circa 50% is factored in to ensure this charge does not undermine viability);



- Site Type D is also shown to be viable, being an A1 retail warehouse. Again, the surplus generated is significant and therefore this site type is considered suitable for the application of a CIL charge calculated this as being equivalent to circa £150 to £200 per sq m (when a 'buffer' allowance equivalent to circa 50% is factored in to ensure this charge does not undermine viability);
- Site Type E, being A1 to A5 small retail / service, is shown to be marginally viable, or just over the threshold for being marginally viable. For the purposes of this assessment it is concluded that a CIL charge is not currently appropriate. However, in the event that market conditions improve this may be a site type which could potentially support a CIL charge;
- All other site types (including B1 offices, B1, B2 and B8 industrial, C1 hotel and D2 leisure) show a negative return and are therefore deemed to be unviable. None of these site types are therefore considered to be capable of supporting a CIL charge, at least in the prevailing market conditions.

10.39 Having regard to the outcomes of the development appraisals, the DVS concludes that A1 supermarket / retail uses are viable on both greenfield and brownfield sites and are likely to be capable of supporting a CIL charge. Allowing for a 'buffer' equivalent to 50% of the charge, it is calculated that a CIL charge range of £100 to £300 per sq m, dependant on the nature (and particularly the size) of the proposed development could be sought. The appraisal results show that all other commercial development is either unviable or at the margins of viability and is therefore unlikely to be capable of supporting a CIL charge, at least in the prevailing market conditions. The conclusions on commercial viability reflect those identified in the Council's earlier Viability Assessment Report (October 2015) described in Table 25 above.

### **Northumberland County Council Housing Delivery Report (June 2016)**

10.40 Notwithstanding the outputs from the theoretical development appraisals which have informed the preparation of this Viability Assessment which describe a challenging position regarding development scheme viability, particularly in low and medium value housing markets across Northumberland, it is evident that housing development is happening. In seeking to explain this apparent anomaly, the Council has conducted research into the extent and scale of housing development occurring in low and medium value areas.

10.41 An Interim Housing Delivery Report (June 2016) has been published alongside this Assessment. It should be viewed as a 'live' document which will be reviewed regularly in order that present day delivery can be presented when the emerging Core Strategy is presented for Examination. The purpose of the Report is to present data about housing development schemes under construction or recently completed

in the last three years in low and medium value housing market areas. The Report provides commentary on current housing supply; the extent of recent delivery of new housing; information on housing completions provided as a requirement of Local Authority National Performance Indicators; and it provides specific delivery information about 23 current housing sites at various scales and at various stages of development. The sites analysed are comparable with many of the hypothetical site typologies examined in this Assessment.

- 10.42 The report clearly demonstrates that housebuilding is happening in low and medium housing market value areas throughout Northumberland. It also demonstrates that this housebuilding is delivering necessary policy requirements in accordance with the development plan, including significant proportions of affordable housing and other infrastructure required to make these developments acceptable in planning terms.
- 10.43 The evidence provided through this report suggests that the assumptions contained within this Viability Assessment are overly cautious and therefore not entirely reflective of 'real world' development economics. The report demonstrates that, notwithstanding the assumptions used in this Assessment which clearly impact negatively on theoretical development viability, it is evidently possible for the housebuilding industry to develop viably and make a profit in the low and medium value areas in Northumberland whilst meeting policy obligations.
- 10.44 Within Northumberland there are some areas of very high value housing capable of providing substantial returns to developers and landowners whilst still meeting current and future planning policy obligations. There are also areas, particularly in the south-east of the County, where values are lower and hence returns to developers and landowners are significantly lower. In these low value areas it is expected that there will be real constraints in respect of viability, particularly in the short to medium term based on current day assumptions used in this Assessment. However, evidence presented by the Council demonstrates that, notwithstanding these challenging economic circumstances, development is proceeding.

## **Community Infrastructure Levy**

- 10.45 The introduction of a Community Infrastructure Levy must be underpinned firstly by evidence of the infrastructure needed to support implementation of the emerging Core Strategy as a whole and any associated funding gap that may hinder its provision; and secondly by evidence that introducing a CIL would not put at serious risk the viability of development required to deliver the Core Strategy. Whilst CIL is intended to be a positive tool which can secure the delivery of infrastructure in support of development and growth there is clearly an important balance to be struck between ensuring the charge raises funds to address infrastructure requirements and ensuring the charge does not threaten viability.

- 10.46 The County Council has been working with infrastructure providers and a range of other agencies in considering local requirements associated with the Core Strategy. A Draft Infrastructure Delivery Plan has been published for consultation alongside the emerging Core Strategy at several stages of plan preparation.
- 10.47 The surplus or deficit in the value of a development scheme calculated through the residual land value calculation helps to determine the potential scope introducing a CIL charge. Where the results demonstrate a deficit, it is evident there is no scope for a CIL charge. However, this does not automatically determine that CIL cannot be imposed. The baseline viability assessment prepared in support of the initial Viability Assessment Interim Report (December 2014) tested a notional CIL charge of £30 per sq.m.
- 10.48 The subsequent Viability Assessment published in October 2015 sought to determine the maximum amount of affordable housing which could be achieved through developer contributions. Scheme viability varies depending on locational factors and is demonstrated by reference to the 'traffic light' rating system on hypothetical site typologies described at paragraph 10.5 and in Table 24 above. Reducing the assumption on affordable housing requirements to 15% as a minimum as described in the emerging Core Strategy allowed further testing to be undertaken. This resulted in a charge of £50 per square metre for residential development being tested.
- 10.49 Consideration of the introduction of a CIL charge has been applied in this Viability Assessment in a similar fashion to the use of sensitivity testing of assumptions used in the Assessment. If a CIL is pursued, further viability testing would be required to test rates of CIL including variable rates for different development types and areas. For the purposes of the current Assessment it is concluded that a CIL charge on residential development at the rate notionally tested represents a modest amount in the viability equation when considered in the context of wider development costs. Its overall effect on viability findings is therefore relatively insignificant, particularly at the high and highest value areas across the County.
- 10.50 The DVS has provided an assessment of the viability of commercial development typologies. Within their report on the viability of commercial development typologies commentary is provided on the viability of introducing a CIL charge. Evidence suggests that there is some scope for introducing a CIL on some types of the more viable commercial development within the County particularly supermarkets and retail warehouses. The DVS suggests that CIL charges ranging from around £100 per sq m up to around £300 per sq m, depending on the size of unit, could be applied without undermining viability. It is acknowledged that further research on this advice will be required if CIL is to be progressed.



## 11 CONCLUSIONS

- 11.1 The results presented in this report, its associated appendices and the conclusions given in various reports provided by the DVS in support of the Assessment provide a comprehensive evidence based assessment of the viability of different types of development across broad value bands identified in Northumberland. The Assessment has been conducted based on the available evidence as advocated in relevant guidance regarding the preparation of whole plan viability assessments.
- 11.2 Having regard to the evidence presented in this Assessment report, the Council is satisfied that, based on the results of a wide range of appraisal, including the testing of hypothetical typologies and potential 'real world' site specific development appraisals, and an analysis of the extent of development actually being delivered in the County, the emerging Core Strategy in its current iteration sets out an appropriate and deliverable strategy. The Council is satisfied that the cumulative impact of the standards and policies promoted through the Core Strategy should not put implementation of the Core Strategy as a whole at serious risk, and should facilitate development planned in the Core Strategy throughout the economic cycle.
- 11.3 It is recognised that viability assessment is not a precise science. When conducted in accordance with national policy established in NPPF it is acknowledged that the evidence supporting the Assessment should be proportionate, using only appropriate available evidence. The Council has approached the whole plan viability assessment process having regard to national policy and guidance. Additionally, the Council has sought to apply an objective analysis of the Viability Assessment, using the DVS to provide a sense check. This has strengthened the conclusions of the Assessment.
- 11.4 Overall, the Viability Assessment takes a deliberately cautious approach. Assumptions in the Assessment present a position which is some significant distance from the margins of viability. In particular, assumed build costs are by no means at minimum levels. This cautious approach to all assumptions has a cumulative effect.
- 11.5 The results provide a useful indication of viability but only an indication. The outputs should not be treated as strict value cut-offs at which point developments are viable or unviable. The precise nature and timing of delivery of any particular development will influence its viability or otherwise. A whole plan viability assessment can only provide a broad picture of viability across a plan area. This Viability Assessment has demonstrated that implementation of the Core Strategy can be achieved across the County.
- 11.6 A common theme running through all of the results in the Assessment is that they are highly sensitive to changes in appraisal inputs. A relatively small adjustment,

particularly for assumptions such as build costs and house values, can have a significant effect on the outcome. Much of the available data from which house values have been derived comes from a period of relatively depressed values. There have been recent positive signs of market improvement and it is expected this will continue in the Core Strategy plan period.

- 11.7 Northumberland is a large and diverse county with very different housing markets. There are some areas of very high value housing while in some of the more urban areas there are some very low values. In these low value areas it is therefore expected that there will be real constraints in respect of viability, particularly in the short to medium term. The situation is partly evident in the number of schemes which have planning consent but have not progressed to being delivered.
- 11.8 However, the Council has presented evidence that clearly demonstrates that housing development is, and can be, delivered in low and medium value areas. This tends to contradict the findings of theoretical development appraisals and properly challenges the extent to which general assumptions used in whole plan viability assessments of this type can be viewed as realistic.
- 11.9 The conclusion reached by the Council, with support from its professional advisors is that the assumptions applied in baseline development appraisals prepared as part of this Viability Assessment, particularly on costs associated with development, are overly cautious. In conducting reasonable sensitivity tests on the development appraisal assumptions applied to more recent modelling undertaken by the DVS it is concluded that development sites in medium value areas can comfortably return a viable scheme, even with the application of a 15% affordable housing provision. In this regard, advice provided by the DVS leads the Council to conclude that the emerging policy requiring a minimum of 15% affordable housing from new housing schemes is reasonable and proportionate. However, these conclusions are reached with the acceptance that development sites will still need to be tested on a 'site by site' basis through individual viability assessments, taking into account the specific details of schemes as they come forward to the market.
- 11.10 The results presented in the Assessment are generally positive. However, it is important to recognise the significance of challenges to viability in the low value areas. Whilst the Council considers that the outcomes of this Assessment are derived from the use of cautious assumptions, it is accepted that delivering new housing in some parts of the County will remain challenging.
- 11.11 The emerging Core Strategy proposes proportionately more development in low value areas, particularly in the South East Delivery Area. Furthermore, the highest values are generally an exception, and limited to very few settlements such as Corbridge and Ponteland. The emerging Core Strategy's approach to the spatial

distribution of development seeks partly to address housing demand and need in the South East Delivery Area, reflecting the more urban populated character of that area and its proximity to the Tyneside conurbation. The spatial strategy seeks to promote development in the most sustainable locations. It also supports appropriate policy intervention to address the wider issues of deprivation, the need for access to services and lack of employment opportunities.

- 11.12 Consideration has been given to adopting alternative approaches to the spatial distribution of future development when considering the outcomes of this Viability Assessment. In recognition of the generally higher values in the central delivery area, the option to redirect more development to these areas was appraised.
- 11.13 It was determined that such an approach would help to ensure viability, but would be less favourable in respect of addressing housing needs and regeneration objectives in key towns in South East Northumberland such as Ashington and Blyth. Such an approach would also be unlikely to be deliverable.
- 11.14 The Northumberland Strategic Land Review supports this position. The Review analyses constraints and opportunities for development within each main town and service centre. It draws on a number of components of the evidence base created in support of the emerging Core Strategy including the Green Belt Review and the SHLAA to illustrate key constraints to development. The Review demonstrates that the scale of housing needed to generate growth in the County as a whole could not all be suitably or sustainably accommodated within just those areas with high values. The Council therefore considered that it would be appropriate to maintain its support for the current emerging spatial strategy for growth.
- 11.15 An important potential constraint to delivery of housing growth identified in the outputs from the Viability Assessment lies with the calculated viability of small scale housing development. In respect of the hypothetical small scale sites delivering one or two dwellings, the results produced through development appraisals suggest that this type of development in low and medium areas is generally unviable in most cases, and may be only marginally viable in some high and highest value areas. This is significant for Northumberland given that minor scale residential developments make up an important component of the County's housing supply.
- 11.16 In considering the reasons for these results, and applying professional judgement on the normal characteristics of such small scale development, it was considered the results may be misleading for this typology. In practise single dwellings are often built by individuals or families. They do not have the same motives for development: it normally comprises a custom built home created for an individual client who does not necessarily have the motive or objective to make a profit, unlike normal housebuilders whose business model depends on achieving a reasonable return on

investment. Furthermore the properties are bespoke and likely to have higher end values than the averages assumed. It would therefore be difficult to conclude that the Viability Assessment could support a view that this residential typology is unlikely to be delivered in any meaningful proportion in the future. The Council expects that small scale housing will continue to be a significant feature in housing supply for the County throughout the emerging Core Strategy plan period.

- 11.17 The Assessment provides an initial examination of the opportunity to introduce CIL in Northumberland. Although CIL needs to be tested in more detail CIL is a relatively insignificant cost in the context of wider development costs. Its potential introduction is unlikely to affect viability significantly, other than where development is only marginally viable. Notwithstanding this, there are tensions in respect of ensuring any proposed level of CIL charge does not threaten the viability of development and ensuring that the infrastructure needed to deliver the growth objectives of the Core Strategy is secured. This matter will require further appraisal prior to progressing with collecting additional evidence to support introduction of CIL.



# GLOSSARY

**Abnormal Development Costs (or ‘abnormals’)** – The costs associated with development that are not allowed for specifically within the normal development costs. These can include costs associated with unusual ground conditions, contamination etc.

**Acre** – An area of measurement comprising 43,560 square feet of area. This report principally uses the metric system, so areas of land will mainly be quoted in square metres (sq.m.) and hectares. One acre is equal to 0.4047 hectares.

**Affordable Housing** – The National Planning Policy Framework (NPPF), at Annex 2: Glossary, defines affordable housing as: ‘Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision’ ‘Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency’ ‘Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges where applicable)’ ‘Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing’.

**Base Build Costs** – The cost of construction only, often sourced from the Building Cost Information Service, which excludes external works, fees, and any abnormal costs. It includes construction overheads and profit together with site set-up and management cost known as preliminary costs.

**Brownfield/Previously Developed Land** - Land which is or was occupied by a permanent structure, including the curtilage of the developed land (although it should not be assumed that the whole of the curtilage should be developed) and any associated fixed surface infrastructure. This excludes the following:

- Land that is or has been occupied by agricultural or forestry buildings;
- Land that has been developed for minerals extraction or waste disposal by landfill purposes where provision for restoration has been made through development control procedures;
- Land in built-up areas such as private residential gardens, parks, recreation grounds and allotments;

- Land that was previously-developed but where the remains of the permanent structure or fixed surface structure have blended into the landscape in the process of time.

**Building Cost Information Service (BCIS)** – A subscription service of the Royal Institution of Chartered Surveyors (RICS) to facilitate the exchange of detailed building construction cost price data based on tender prices.

**Building Regulations** – A national code of practice issued by way of Statutory Instrument that acts as a detailed set of controls on methods of construction, the type and minimum quality/performance of techniques and materials used in building.

**Capital value** – The value of building or land as distinct from its annual or periodic value (e.g. rental value). So called due to the level of funds (capital) tied-up in a property holding.

**Cash flow** – The estimated movement of money by way of income (e.g. sales receipts) and outgoings (expenditure – e.g. development costs) during the course of a development from assumed site purchase to completion on the last sales. The cash flow approach behind most development appraisals looks at the cumulative effect of the development costs and any income (receipts) usually on a monthly or quarterly basis.

**Charging Authority** – for the purposes of a Community Infrastructure Levy ('CIL' – see below) is the Local Planning Authority (as defined by Section 37 of the Planning and Compulsory Purchase Act 2004 for England) that will set, charge, collect and administer the CIL payments.

**Charging Schedule** – A document setting out the rates at which a Community Infrastructure Levy (CIL) will be charged in the charging authority's area according to development use type, location and potentially scale of development.

**Community Infrastructure Levy (CIL)** – A levy allowing local authorities which are charging authorities to raise funds from owners or developers of land undertaking new building projects in their area. The funds are to be used solely for the provision of infrastructure necessary to support new development coming forward under the Development Plan for the area. CIL is expected to contribute positively to the delivery of development and not to place development overall at risk through being set at too high a rate. Charging authorities must express through a charging schedule their CIL rates in pounds per square metre (£/m<sup>2</sup>), as CIL will be levied on the gross internal floorspace of the net additional liable development. The published rate(s) within an authority's charging schedule will enable liable parties to anticipate their expected CIL liability.

**Core Strategy** – A Development Plan Document (DPD) in which local authorities set out their strategic planning approach for their area.

**Current Use Value ('CUV')** – Market value derived on assumption reflecting the current use of the property only and disregarding any prospect of development other than for continuation or expansion of the current use.

**Alternative Use Value ('AUV')** – The market value or values associated with any other potential realistic alternative use for the site having regard to relevant planning policies.

**Density** – The intensity of use of a site demonstrating how much development can be accommodated on the site. For residential development density is usually described in terms of the number of dwellings per hectare.

**Development Appraisal** – A financial appraisal of a development undertaken to calculate either:-

- i. The Residual Land Value of a site after deducting all development costs, including an allowance for the developer's profit / return, from the scheme's Gross Development Value (GDV); or;
- ii. The residual development profit / return after deducting all development costs, including the site value / cost, from the scheme's Gross Development Value.

**Development Cost** – This is the cost associated with the development of a scheme and includes acquisition costs, site-specific related costs such as planning obligations, build costs, fees and expenses, interest and financing costs.

**Development Plan** – This term includes adopted Development Plan Documents including Local Plans, Core Strategies and made neighbourhood plans as defined in Section 38 of the Planning and Compulsory Purchase Act 2004. The Development Plan guides the use and development of land within the relevant local authority's area through a range of policies. Decisions on planning applications must be made in accordance with the Development Plan unless material considerations indicate otherwise.

**Development Plan Document (DPD)** – Spatial planning policy documents that comprise the Development Plan for a local authority area.

**Developers Profit** – The developers return for the risk taken in implementing a development project. For the purpose of viability assessment this is the gross profit, before tax. Profit used in development appraisals is expressed as a percentage of Gross Development Value (GDV). Developers will sometimes use other methods, for example a rate of return on investment.

**Development Viability** – The extent to which any given development can, or is calculated through development appraisal to be able to, proceed having regard to the costs and returns associated with implementing the development.

**District Valuer Service (DVS)** - The specialist property arm of the Valuation Office Agency (VOA). The DVS provide professional independent property advice and valuations across the public sector.

**Existing Use Value (EUV)** – The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller, in an arm's-length

transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, assuming the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost (see also Current Use Value and Market Value).

**External works** – Normal site works allowed for additionally to the construction of the building including the cost of parking areas, utilities, landscaping, and typical access roadways.

**Finance Costs** – The costs associated with borrowing funding to finance the construction of a development scheme.

**Greenfield Site** – Land which has not been developed before. This primarily relates to agricultural or amenity land.

**Gross Internal Area (GIA)** – The whole enclosed area of a building within the external walls taking each floor into account and excluding the thickness of the external walls. GIA will include: areas occupied by internal walls (whether structural or not) and partitions; service accommodation such as WCs, showers, changing rooms; columns, piers, whether free standing or projecting inwards from an external wall, chimney breasts, lift wells, stairwells etc; lift rooms, plant rooms, tank rooms, fuel stores, whether or not above roof level; open-sided covered areas. This is the measure by which BCIS build costs are provided.

**Gross Development Value** – The total financial return received by a developer on completion and sale of the development before all costs are subtracted.

**Hectare** - A metric unit of measurement consisting of 10,000 sq.m. For comparison purposes an acre comprises 0.4047 hectares and one hectare contains 2.47 acres.

**Home Builders Federation (HBF)** – The trade association representing private sector homebuilders in England and Wales. Its members deliver around 80% of new homes built each year.

**Homes and Communities Agency Development Appraisal Tool (HCA DAT or DAT)** – A model designed to appraise the viability of an individual site. It takes into account local assumptions for costs and value, and records the dates at which these assumptions impact on a project cashflow over the life cycle of the development in order to identify the residual land value (RLV) or funding deficit.

**Infrastructure** – The full range of transport networks, utilities, services and facilities that are needed to create sustainable neighbourhoods and support new development..

**Land Registry** - Her Majesty's Land Registry is a non-ministerial department of the Government of the United Kingdom, created in 1862 to register the ownership of land and property in England and Wales.

**Local Plan** – A document adopted by a Local Planning Authority setting out planning policies for an area and comprising part of the Development Plan.

**Local Planning Authority (LPA)** – The public authority whose duty it is to carry out specific planning functions for a particular area.

**Lower Quartile** - The value of a set of data at the first quarter (25%) when all the data has been arranged in ascending order. It is the median value of the lower half of all the values in the data set. The lower quartile is the 25th percentile.

**Market Value** – The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after a proper marketing period wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Median** - The number separating the higher half of a data sample, a population, or a probability distribution, from the lower half. This is a form of average.

**National Planning Policy Framework (NPPF)** – The NPPF sets out the Government’s planning policies for England and how these are expected to be applied. It sets out the Government’s requirements for the planning system only to the extent that it is relevant, proportionate and necessary to do so.

**National Planning Practice Guidance (NPPG)** – On-line resource acting as a supporting resource to the NPPF providing the Government’s latest guidance on how to operate the NPPF in practice.

**Nationally Described Space Standards** - This is an optional standard that deals with internal space within new dwellings and is suitable for application across all tenures. It sets out requirements for the Gross Internal (floor) Area of new dwellings at a defined level of occupancy as well as floor areas and dimensions for key parts of the home, notably bedrooms, storage and floor to ceiling height. The requirements of this standard for bedrooms, storage and internal areas are relevant only in determining compliance with this standard in new dwellings and have no other statutory meaning or use.

**Out of centre** – A location which is not in or on the edge of a centre but not necessarily outside the urban area.

**Out of town** – A location out of centre that is outside the existing urban area.

**Planning obligations** – A legally enforceable obligation entered into under Section 106 (s.106) of the Town and Country Planning Act 1990 to mitigate the impacts of a development proposal in order to make that development acceptable in planning terms.

**Registered Provider (RP)** – This legal definition has replaced the previously recognised term of Registered Social Landlord (RSL) and incorporates most Housing Associations. However,

the updated understanding now explicitly allows both profit and non-profit making social housing providers to be registered (with the HCA) as affordable housing providers.

**Regulation 123 List** – A list produced by a CIL charging authority setting out the infrastructure types of projects on which it intends to spend the funds collected from its CIL.

**Rental value** – The income derived under a lease or tenancy for the use of land or use of a building. This is usually assessed or stated in annual value terms.

**Residual Land Value (RLV)** – The amount left for land purchase once all development finance, land costs and profit have been deducted from the GDV, normally expressed in monetary terms (£). This allows for the sums subtracted for affordable housing and other planning obligations where applicable.

**Saved Policies** – Planning policies contained in older Development Plan Documents whose life has been formally extended pending replacement by up-to-date Local Plans. A formal direction is required through Secretary of State in order for policies to be saved.

**Sensitivity test(s)** – Variation to assumptions used in a development appraisal which allow the effect of those variations to be assessed.

**Strategic Housing Land Availability Assessment (SHLAA)** - An assessment of sites presented by landowners who consider the land has potential to accommodate new housing. The assessment examines constraints and opportunities presented by each site and is used as evidence to inform the promotion of housing land required to achieve a five year supply of deliverable housing land in the local authority area.

**Strategic Housing Market Assessment (SHMA)** - An assessment of the scale and mix of housing and the range of tenures that an area is likely to need over the Development Plan period in order to meet household and population projections, taking account of migration and demographic change.

**Supermarket** – In the context of Local Plan and CIL Viability a supermarket can be defined as, shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.

**Supplementary Planning Document (SPD)** – Provides supplementary information in respect of the policies in Local Plans / DPDs, and their more detailed application. These do not form part of the development plan and are not subject to independent examination.

**Starter Homes** - The Government has announced a new Starter Homes Initiative in England that aims to help young first-time buyers (below 40 years) purchase a home with a minimum 20% discount off the market price

**Tenure / Tenure Type** – The mode of occupation of a property. The most common types of tenure include: market purchase (buying the whole of a property); shared ownership (buying part of a property); and renting.

**Tenure Mix** – The tenure types of development provided on a site, most commonly used in describing the proportion of dwellings to be sold on the open market and those made available to rent.

**Threshold Land Value (TLV)** – A land value at or above that which it is assumed a willing landowner would be prepared to sell their land to allow development to happen.

**Upper Quartile** - The values in a set of data in the third quarter (at or above 75%) when that data set has been arranged in ascending order. It is the median value of the upper half of all the values in the data set. Three-quarters of the data set lie below the upper quartile. The upper quartile is the 75th percentile.

**Use class** – The Town and Country Planning (Use Classes Order) 1987 (as amended) puts uses of lands and buildings into various categories known as 'Use Classes'. This list provides an indication of the types of use which may fall within each use class.

**Yield** – The percentage of the capital value of a property represented by one year's rental income. The lower the yield, the higher the rental capitalisation.

## A VIABILITY ASSESSMENT PRINCIPLES, CONSULTATION AND METHOD

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### INTRODUCTION

1. Whilst there is no single approach to Viability Assessments, the Viability Assessment of the Northumberland Core Strategy and Community Infrastructure Levy is underpinned by Planning Practice Guidance and other available guidance, notably 'Viability Testing Local Plans: Advice for Planning Practitioners' (June 2012).
2. The following expands on some key components of the approach adopted, which is discussed in the main report.

### PRINCIPLES, CONSULTATION AND METHODOLOGY

3. The specific principles underpinning the Viability Assessment, are as follows:
  - **The Assessment is underpinned by evidence.** The Assessment builds upon existing available evidence and has involved collecting and analysing new evidence. A diligent and objective approach has been employed in ensuring the accuracy and soundness of evidence.

The first stage of the assessment involved reviewing the existing evidence base and considering scope for the alignment. The table below captures this review of the baseline Core Strategy evidence which has been updated as the assessment has progressed.

Source of Evidence	Description	Consultation	How the evidence informs and/or aligns with the Viability Assessment
Strategic Infrastructure Study	The purpose of the Strategic Infrastructure Study is to understand infrastructure capacity and constraints and to identify what infrastructure is required to deliver the Core Strategy. The Study has resulted in an Infrastructure Delivery Plan which details which organisations/infrastructure providers will deliver infrastructure projects, when they will be delivered and how they will be funded.	The Study and associated delivery plan have been developed with the input of various stakeholders including the range of bodies responsible for infrastructure. There have also been formal opportunities to comment on Reports alongside the Core Strategy.	The IDP will be used to support the preparation and implementation of a Community Infrastructure Levy in Northumberland. It establishes the basic framework for what is referred to as a Regulation 123 list which will detail which infrastructure will be funded via the new levy. The residual funding gap identified will continue to inform testing various levels of CIL.



Source of Evidence	Description	Consultation	How the evidence informs and/or aligns with the Viability Assessment
Population, Household and Employment Forecasts and projection	Population, household and employment forecasts and analysis have informed the Core Strategy's preparation.	The work has been subject to continuous informal and formal engagement.	The evidence is integral to the Core Strategy and underpins policies and proposals on the scale and spatial distribution of development. As such, the evidence is fundamental to the Viability Assessment.
Strategic Housing Land Availability Assessment (SHLAA)	<p>The SHLAA provides a comprehensive and up to date evidence base. It comprises detailed information on around 3,000 sites.</p> <p>Viability is a feature of the SHLAA. Factors relevant to viability are assessed for each site in accordance with SHLAA Guidance.</p> <p>A checklist pro-forma which reflects the suggested checklist provided in the Viability Testing Local Plans advice was issued to help to further build the Council's knowledge of the sites and specific viability considerations.</p>	Development and review of the SHLAA has involved continued engagement with the development industry including through an industry working group. The assessment also relies heavily on the input of developers and land owners in respect of specific sites. Additionally, the SHLAA has been subject to more widespread formal public consultation.	<p>The SHLAA underpins judgements regarding the inclusion/designation or otherwise of housing sites in the Core Strategy. The nature of sites could have a key influence on the deliverability of the plan.</p> <p>The sites identified in the SHLAA have been used to help inform 'site types' assessed as part of the Viability Assessment.</p> <p>Conversely, the Viability Assessment, including its evidence base, has been used to review consideration of the 'achievability' of SHLAA sites.</p>
Five Year Housing Land Supply	<p>The Five Year Housing Land Supply is derived from the SHLAA and considers sites that have a realistic expectation to deliver housing within five years.</p> <p>Alike with the SHLAA, viability is a feature of the Five Year Housing Land Supply. Sites are assessed against NPPF criteria including in respect of achievability.</p>	Development and review of the 5 year housing land supply involved consultation with developers and site owners.	As with the SHLAA, the Five Year Housing Land Supply informs judgements regarding the inclusion/designation or otherwise of housing sites in the Core Strategy.
Strategic Land Review	The Strategic Land Review examines the capacity of Northumberland to accommodate housing and employment development. It is key to demonstrating a supply of sites to meet objectively assessed needs.	The Strategic Land Review has been subject to formal consultation alongside the Core Strategy.	<p>The Strategic Land Review similarly underpins judgements regarding the inclusion/designation or otherwise of development sites in the Core Strategy.</p> <p>The sites identified have been used to help inform 'site types' and characteristics assessed as part of the Viability Assessment. It has also helped to consider key development constraints.</p>

Source of Evidence	Description	Consultation	How the evidence informs and/or aligns with the Viability Assessment
Housing Needs Assessment	A County Wide Housing Needs Assessment was completed in 2012. It provides information about current and future housing needs at a local authority level. More detailed local level analysis of housing profiles has also been undertaken.	The Assessment was informed by joint working with the Local Housing Delivery Partnership. It involved liaising with local agents to understand housing markets. Household surveys also inform the assessment.	The Housing Needs Assessment underpins judgements on the quantity and type of housing provision addressed in the Core Strategy, and is therefore relevant to the Viability Assessment. Specific inputs including property types, sizes and tenure have been used to help identify inputs and assumptions in the Viability Assessment.
Strategic Housing Market Assessment (SHMA)	The assessment assesses the demand and need for market and affordable housing in Northumberland and associated housing market areas. The assessment does not specifically test the viability of delivering housing to meet need and demand. Nevertheless the SHMA recognizes and makes recommendations in light of the many factors which influence the delivery of housing including market factors	In developing the SHMA there were stakeholder workshops. The SHMA was also subject to public consultation.	<p>The Strategic Housing Market Assessment underpins judgements on the quantity and type of housing provision addressed in the Core Strategy, and is therefore relevant to the Viability Assessment. Specific inputs including property types, sizes and tenure have been used to help identify characteristics of development that will come forward in the plan period.</p> <p>Recognising broad differences in markets across the County is also an important component of robustly testing the viability of the Core Strategy and potential differential rates of CIL.</p>
Affordable Housing Viability Assessment	The assessment was undertaken in 2010. It uses Residual Land Value calculations to consider the viability of a 30% affordable housing quota. The calculated RLV is compared against 'benchmark' land values. The assessment tests 16 site typologies based on four market value areas, types of sites and the scale of site.	Assumptions were informed by a stakeholder workshop in October 2009 attended by house builders and housing associations, and by written comments including from the HBF.	The assessment uses a similar approach to that advocated in the Local Housing Delivery Group Guidance towards whole plan viability – i.e. a Residual Land Value approach. The assessment focusses on one specific policy area (i.e. affordable housing) and has been taken into account in the Viability Assessment of the Core Strategy and CIL. There was however a need to review and update the assumptions used given the time lapsed since the work was undertaken.
Employment Land Review	The Employment Land Review serves to demonstrate the need for, and deliverability of, employment allocations across the County.	Developers and agents were consulted in the preparation of the review which was also issued for public consultation.	The Employment Land Review underpins judgements regarding the inclusion/designation or otherwise of employment sites in the Core Strategy and therefore is integral to a number of policies with a key influence on the deliverability of the plan. The sites identified in the Employment Land Review have been used to help

Source of Evidence	Description	Consultation	How the evidence informs and/or aligns with the Viability Assessment
			inform commercial/non-residential 'site types' in the Viability Assessment.
Employment Land Schedule	The schedule identifies levels of developed and available designated employment sites and levels of occupancy. It also details sites with planning permission for employment use to enable some forecasting of employment led development likely to come forward in the short to medium term.	Agents are consulted in order to populate site details. The document is also published.	The schedule informs the overall need for employment land over the plan period and therefore aligns with the Employment Land Review has relevance to the viability of the plan. The sites identified in the Employment Land Schedule have been used to help inform 'site types' to be assessed as part of the viability assessment.
Employment Land and Premises Demand Study	The Study provides a robust analysis of market demand for office, industrial and warehouse properties and employment sites, across the County's settlements. It appraises a range of indicators of demand including past take up, rental values and yields.	Engagement has included the business community and commercial development Industry.	The Demand Study underpins judgements regarding the inclusion/designation or otherwise of employment sites in the Core Strategy and therefore is integral to a number of policies with a key influence on the deliverability of the plan. Relevant evidence from the study including rental and yield values have been used to inform the Viability Assessment.
NCC Application Monitoring Database	The database monitors the development and the performance of existing planning policies and objectives. For example it details changes in use of land, the number of additional dwellings, whether the development incorporates renewable energy, how many affordable homes there are and the requirements of planning obligations.	Agents / developers are consulted to populate site details.	Details of recently delivered development provide a useful measure of what has proven deliverable. Information from the database has also been used to identify suitable site typologies to be tested.
Town Centres and Retail Study	The study provides information about the retail and leisure provision in Northumberland and its viability and vibrancy. The document also identifies there are qualitative needs within parts of Northumberland to enhance and improve existing retail/leisure provision in order to provide more sustainable shopping/travel pattern. The study also identifies that there are areas of	Agents, Property and Premises Owners have been engaged in the work. The document has also been published for formal consultation alongside the Core Strategy.	The Town Centre and Retail Study provides detailed information with regards to yields and rental rates within Northumberland and has been used to help inform the commercial typologies which have been modelled as part of the Viability Assessment.

Source of Evidence	Description	Consultation	How the evidence informs and/or aligns with the Viability Assessment
	capacity across Northumberland for additional retail and leisure floorspace through to the year 2026.		

**Table 1: Review of Evidence**

- **The preparation of the Assessment has been an iterative exercise and has been integral to informing the emerging Core Strategy.** Consideration of viability has informed the plan as it has developed.

There have been several iterations of the Core Strategy and Community Infrastructure Levy Viability Assessment Report, which have preceded this one as follows:

- Core Strategy Viability Assessment Scoping Consultation Paper – subject to consultation between the 31<sup>st</sup> October 2013 – 2<sup>nd</sup> January 2014
  - Core Strategy Interim Viability Assessment Report - subject to consultation between the 12<sup>th</sup> December 2014 and 11<sup>th</sup> February 2015
  - Working Draft Core Strategy and Community Infrastructure Levy draft Viability Assessment (Informal Consultation period with panel members) 7<sup>th</sup> September – 17<sup>th</sup> September 2015
  - Core Strategy and Community Infrastructure Levy draft Viability Assessment – subject to consultation between 14<sup>th</sup> October and 25<sup>th</sup> November 2015
- **The Assessment considers the viability of the Core Strategy as a whole.** No single policy is considered in isolation. The implications of policies and proposals have been appraised collectively. Account has been also taken of the cumulative impact of existing policies that may continue to be saved following the adoption of the Core Strategy<sup>1</sup>.
  - **Engagement and collaboration has been a key focus of the preparation of the Viability Assessment.** The Viability Assessment process has been transparent. A Development Viability Panel was established from an early stage to inform the process. The Panel of representatives from the development industry was formally established on the 3<sup>rd</sup> October 2013 (the date of the first meeting). Before that date, over 90 individuals and organisations were invited to submit an expression of interest in being part of the Panel. The invitations went to a range of interests such as large and small scale house builders, affordable

<sup>1</sup> As included in Northumberland Consolidated Planning Policy Framework

housing providers, local agents, commercial developers and consultancies known to be active in the area. The invitation was also extended to a wider audience and was advertised on the Council's web site.

Collaboration with neighbouring and other authorities and other agencies has also underpinned the approach.

The following summarises the key meetings in respect of consultation and engagement. There was also informal dialogue between meetings and formal opportunities to comment

#### **Northumberland Development Viability Panel – 03/10/13:**

External event with around 20 including around 15 from outside organisations

Panel consisting of representatives of development industry and others with an interest in land and development in the County, plus key officers from within the authority.

Initial meeting of the Development Viability Panel to discuss the viability assessment of the Core Strategy. An initial discussion paper was provided to form the basis for the meeting.

WHAT WAS ACHIEVED: Sharing of available evidence and improved understanding of the key viability issues, Identified areas for further research.

#### **Meeting with Durham County Council regarding Whole Plan Viability – 16/07/2013:**

External meeting with around 4

Meeting to discuss the two local authority's experiences and approaches to the Whole Plan Viability Process.

WHAT WAS ACHIEVED: Sharing of ideas for evidence base and approaches to the Whole Plan Viability Process.

#### **Meeting with Durham County Council regarding Whole Plan Viability – 19/12/2013:**

External meeting with around 4

Meeting to discuss the two local authorities experiences and approaches to the Whole Plan Viability Process.

WHAT WAS ACHIEVED: Sharing of ideas for evidence base and approaches to the Whole Plan Viability Process.

#### **Northumberland Development Viability Panel - 16/01/2014**

External event with around 20 including around 15 from outside organisations

Panel consisting of representatives of development industry and others with an interest in land and development in the County, plus key officers from within the authority.

Meeting to discuss the on-going work and evidence in respect of the viability assessment of the Core Strategy. A further discussion paper covering key assumptions and development typologies formed the basis of the meeting.

WHAT WAS ACHIEVED: Sharing of available evidence and improved understanding of the key viability issues, Identified areas for further research.

**Meeting with Homes Builders Federation - 05/03/2014:**

External event with 4 HBF representatives.

The meeting discussed viability issues including typologies, housing mix, floor space issues, densities, values, incentives and other costs and fees. Also an update on Core Strategy following Housing, Employment and Green Belt Pref. Options consultation, including comments received and future population / household projections etc.

WHAT WAS ACHIEVED: Useful exchange of information and views regarding, viability, the recent consultation and an understanding of the work necessary to ensure that housing needs are objectively assessed.

**Northumberland Development Viability Panel - 27/03/2014:**

External event with around 15

Panel consisting of representatives of development industry and others with an interest in land and development in the County, plus key officers from within the authority.

The meeting focussed exclusively on residential development. A presentation of the Viability Assessment work was given to the Panel and open discussion ensued about key issues and need for further analysis such as in respect of values.

WHAT WAS ACHIEVED: Sharing of available evidence and improved understanding of the key viability issues, Identified areas for further research.

**Meeting with Durham County Council regarding Whole Plan Viability – 25/06/2014:**

External meeting with around 5

Meeting to discuss the two local authority's experiences and approaches to the Whole Plan Viability Process.

WHAT WAS ACHIEVED: Sharing of ideas for evidence base and approaches to the Whole Plan Viability Process.

**Teleconference with Planning Advisory Service**

**19/08/14**

External meeting with around 6

Meeting to discuss progress with Viability Assessment with an independent body and to discuss different approaches to undertaking the assessment.

WHAT WAS ACHIEVED: Critical review of work to date and sharing of ideas for evidence base and approaches to the Whole Plan

#### **Meeting with Home Builders Federation - 11/11/14**

External event with around 5 HBF members

The meeting discussed a wide range of plan making issues including viability. A summary on the progress with the Whole Plan Viability Assessment was provided.

WHAT WAS ACHIEVED: Useful exchange of information and views.

#### **Planning Advisory Service event with North East Local Planning Authorities (Durham Guild Hall) – 27/2/15**

External event with around 15 Local Authority Representatives

A meeting to discuss issues and experiences in the North East with general viability matters, whole plan viability and the introduction of CIL.

WHAT WAS ACHIEVED: Useful information gathering and exchange exercise

- **The preparation of the Assessment has been proportionate and practical.** In line with guidance and best practice the Assessment has sought to use appropriate and available existing evidence as well as gathering new evidence. Guidance recognises that the available data is unlikely to be comprehensive. Some evidence is harder to source and in all instances an element of professional judgement needs to be applied.
- **Best practice and guidance underpin the Assessment.** The Assessment is informed by best practice and guidance including Planning Practice Guidance and the Local Housing Delivery Group's guidance 'Viability Testing Local Plans' Advice (often referred to as The Harman Guidance). The advice comes from a cross-industry group from the Home Builders Federation (HBF), the Local Government Association (LGA), house builders and local government representatives. It is underpinned by a commitment from the HBF and LGA to engage their members in applying the advice and continuing to develop guidance over time.
- **Independent scrutiny and review.** Work on the Viability Assessment has been subject to independent review and scrutiny via the Planning Advisory Service (PAS). PAS provides consultancy and peer support, training sessions and online

resources to help local authorities understand and respond to planning reform. In developing the Viability Assessment various PAS support has been utilised including staff training on viability matters; and peer review of the Viability Assessment work at an earlier stage in the Viability Assessment process. PAS were supportive of the approach taken including the robust evidence underpinning the approach. At the later stages of the Viability Assessment process the District Valuer Service was also appointed to undertake particular workstreams and to provide professional advice and additional evidence on specific matters, including development costs and revenue and Threshold Land Values.



## **B IDENTIFYING RESIDENTIAL DEVELOPMENT TYPOLOGIES**

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### **INTRODUCTION**

1. Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. As described in National Planning Practice Guidance, site typologies may be used to determine viability at policy level.  
(Paragraph: 007 Reference ID: 10-007-20140306)
2. In identifying appropriate site typologies for Northumberland a range of evidence was reviewed to consider the nature of future housing land supply.
3. The following summarises the findings of interrogating the available information and the rationale for identifying each of the proposed residential typologies.

### **THE EVIDENCE**

4. Northumberland's Strategic Housing Land Availability Assessment, Five Year Housing Land Supply and Strategic Land Review all provide information on the likely supply of housing land over the Core Strategy plan period.
5. Data on housing completions in Northumberland meanwhile provides evidence of the types of development which have been delivered. This has to be treated with an element of caution because the pattern of future development may not reflect that of past development, which came about under past or existing planning policies and market conditions.

### **GUIDANCE**

6. The Local Housing Delivery Group's guidance Viability Testing Local Plans Advice for planning practitioners (June 2012) also referred to as the 'Harman Guidance' advocates the use of site typologies and suggests a reasonably wide variety of sites should be considered. For different site types the guidance sets out that there are different average characteristics that have a bearing on the viability calculation. Factors that impact on viability of typologies are identified to include:
  - Differential costs of infrastructure depending on site size.

- The potential for 'abnormal' costs such as remediation and decontamination on previously used sites, in addition to costs of site clearance.
- Consideration of phasing of development of larger sites, in line with rates of market absorption.
- The value at which land will be released for development, differentiating urban sites, small and medium sized edge of town sites and larger urban extensions.
- The significant variations in strength of a market across a local authority area.

## **IDENTIFYING RESIDENTIAL DEVELOPMENT TYPOLOGIES AND CHARACTERISTICS IN NORTHUMBERLAND**

7. Taking account of the Guidance, including the factors which influence the viability equation, a review of the available evidence was undertaken.
8. Northumberland is a County of contrasts. Although largely rural in nature, there are urban areas which are predominantly in the south east and closely related to the Tyne and Wear conurbation. The County covers a large expanse with the biggest geographic coverage of any unitary authority. As well as protected landscapes and large areas of agriculture, there are many settlements ranging from remote villages to key service centres and main towns. The largest settlements have no more than 40,000 residents.
9. Accordingly, the picture of past and future development is one of contrast. However, there are certain common site types and characteristics.

### **Strategic Scale Development**

10. In Northumberland, very large scale developments do occur but are an exception. What is considered to be strategic scale development for the purposes of the Viability Assessment would be a development creating in the order of over 300 dwellings. Developments of this scale are likely, in the most part, to be limited to extensions of 'main towns' however there could be developments of this scale extending key 'service centres'<sup>1</sup>. Developments of this scale completely outwith a main towns or service centre would be an exception.
11. Completed and extant developments of this scale are mostly in the South East and Central Delivery Areas<sup>2</sup>. In line with the spatial strategy, large scale developments will continue to be mostly focussed on these key growth locations, which are

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<sup>1</sup> Main Towns and Service Centres are defined in the emerging Northumberland Local Plan: Core Strategy

<sup>2</sup> Delivery Areas are defined in the Northumberland Local Plan: Core Strategy

considered to be the more urban parts of the County. The sites within these areas are in a mix of housing market value bands from the lowest to the highest.

12. Some strategic scale schemes have included elements of flatted development although these have not and are not forecast to be a particular feature of future development in Northumberland. A market shift since the recession has seen demand for apartments reduce and developers taking a more cautious approach to flatted development.
13. In the most part, the supply of strategic scale sites are greenfield sites. There are however sites which do comprise elements of built development, for example there are a number of former hospital sites in the County which have been subject to planning applications including part of St George's in Morpeth and Prudhoe Hospital site.
14. Strategic scale developments would occur in phases and could be long term developments over five years or more.

#### Significant scale development

15. Sites for significant scale development which in Northumberland would be in the order of 100- 300 dwellings, are similarly in the most part related to main towns or service centres. They are spread throughout the North, West, South East and Central Delivery Areas, however, the greatest proportion is in the South East.
16. Overall the future supply of sites fall within the full range of market areas i.e. there are sites in low, medium, high and highest value bands.
17. Alike with strategic sites developments of this scale are most likely to be built in phases.
18. There is a mix of brownfield and greenfield sites of this scale, although in the most part, sites are greenfield reflecting the fact that with a few exceptions the sites are mostly adjacent to settlements rather than within them.

#### Large scale development

19. Sites with capacity for around 25 – 99 dwellings can be considered to be large scale in Northumberland. They are widespread throughout the delivery areas and relate to all settlement types, including rural settlements rather than just the Main Towns and Service Centres.

20. Due to the spread of this site typology across the County, the sites are found within the full range of market areas i.e. there are sites in low, medium, high and highest value bands.
21. Around half the available sites for this scale of development are greenfield or mostly greenfield, however there are a number of brownfield sites.

#### Medium scale development

22. Medium scale sites in Northumberland are sites with capacity for around 11-24 dwellings and are widespread throughout the delivery areas. They relate to all settlement types and in a number of instances fall outwith settlements.
23. The sites fall within a range of market areas i.e. there are sites in low, medium, high and highest value bands.
24. Around half or more of the sites for this scale of development are greenfield or mostly greenfield.

#### Small Scale development

25. Alike with the supply of medium scale sites, sites with capacity for around 6-10 dwellings are widespread throughout the delivery areas. They relate to all settlement types and in a number of instances fall outwith settlements, including in rural locations.
26. The sites fall within a range of market areas i.e. there are sites in low, medium, high and highest value bands.
27. Around half the sites are brownfield, mostly brownfield or 50:50 brownfield and greenfield.

#### Minor scale development

28. Minor scale development comprising one to two dwellings have made up a significant proportion of housing supply in Northumberland in the past and is likely to continue to be significant over the plan period.
29. Completed and extant consents of this scale dominated in the former districts of Castle Morpeth and Tynedale which comprise large rural areas.

30. In line with the government's agenda to promote self build housing, the Core Strategy supports developments of this kind and therefore it is anticipated these schemes will remain prevalent over the plan period.
31. Given the number of minor scale developments, the type of sites varies significantly but includes infill developments within Main Towns and Service Centres, greenfield plots and agricultural conversions or new build on agricultural brownfield land.

## CONSULTATION

32. Through early consultation, stakeholders agreed to the Council's approach to using a range of appropriate site typologies reflecting the mix of sites upon which the Core Strategy relies.
33. The following typologies and hypothetical schemes emerged and were agreed by members of the Development Viability Panel.

Typology	Typology Reference	Hypothetical Sites
<b>Strategic Scale Settlement expansion</b>	Type 1	Extension of a Main Town in an urban area comprising 400 dwellings. Predominantly brownfield
	Type 2	Extension of a Main Town or Service Centre. Comprising 350 dwellings. Greenfield.
<b>Strategic Scale Settlement expansion including flatted development</b>	Type 3	Extension of a Main Town or Service Centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.
<b>Significant scale main town or service centre infill or expansion</b>	Type 4	Extension or infill of Main Town or Service Centre comprising 200 dwellings. Greenfield.
	Type 5	Extension or infill of Main Town or Service Centre comprising 200 dwellings. 50:50 Greenfield, Brownfield mix.
<b>Large scale settlement infill or expansion</b>	Type 6	Settlement infill or expansion comprising 60 dwellings. Greenfield.
	Type 7	Settlement infill or expansion comprising 40 dwellings. Predominantly Brownfield.
<b>Medium scale development</b>	Type 8	Settlement infill or expansion comprising 20 dwellings. 50:50 Greenfield, Brownfield mix.
	Type 9	Settlement infill or expansion comprising 16 dwellings. Greenfield.

<b>Small Scale development</b>	Type 10	Settlement infill or expansion comprising 10 dwellings. Predominantly Brownfield.
	Type 11	Settlement infill or expansion comprising 10 dwellings. Greenfield.
	Type 12	Out of settlement rural development comprising 6 dwellings. 50:50 Greenfield, Brownfield mix.
<b>Minor scale development</b>	Type 13	1 dwelling development, not in a settlement, Agricultural brownfield land, 0.22 ha
	Type 14	1 dwelling development, in a settlement, Brownfield land 0.11 ha
	Type 15	1 dwelling development, Greenfield site, 0.18 ha
	Type 16	2 dwelling development, Brownfield, in a settlement 0.3

## REVISIONS AND REFINEMENT

34. Reflecting the iterative nature of undertaking a plan Viability Assessment, and the time passed since the typologies and hypothetical sites were identified, they were revisited.
35. As set out in the Northumberland Core Strategy and Community Infrastructure Levy Draft Viability Assessment (October 2015) Retirements Apartments were removed from the site typologies being tested. As discussed in the Draft Report, preliminary testing results were regarded as potentially misleading. There are a range of products and services linked with retirement apartments. The degree to which they are serviced and have supporting facilities and amenities will influence values. This was investigated further, however the Council was unable to source sufficiently robust evidence. In view of these types of development not occurring frequently, it was determined not to be necessary to test as part of whole plan viability testing. The developments may however need to be subject to viability testing on a scheme specific basis through the development management process.
36. Hypothetical sites were also revisited to consider whether the site characteristics with regard to greenfield and brownfield land, reflected future land supply. It was recognised that whether a site is greenfield or brownfield can have a key influence on the viability equation including in respect of threshold land values. The Strategic Housing Land Availability Assessment along with the Strategic Land Review were updated in 2015. This provided more up to date evidence of future land supply. The hypothetical site characteristics were adjusted accordingly to account for the new

evidence utilising evidence from completions data for the period 1<sup>st</sup> April 2012 – 31<sup>st</sup> March 2015 and the Interim Northumberland Strategic Housing Land Availability Assessment (SHLAA) (October 2015). The typologies and hypothetical sites adopted for testing are as follows, with amendments highlighted:

Typology	Hypothetical Sites
<b>Strategic Scale Settlement expansion</b>	Extension of a Main Town in an urban area comprising 400 dwellings. <del>Predominantly brownfield</del> <b>Brownfield</b>
	Extension of a Main Town or Service Centre. Comprising 350 dwellings. Greenfield.
<b>Strategic Scale Settlement expansion including flatted development</b>	Extension of a Main Town or Service Centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield <b>50:50</b>
<b>Significant scale main town or service centre infill or expansion</b>	Extension or infill of Main Town or Service Centre comprising 200 dwellings. Greenfield.
	Extension or infill of Main Town or Service Centre comprising 200 dwellings. 50:50 <del>Greenfield, Brownfield mix.</del> <b>Brownfield</b>
<b>Large scale settlement infill or expansion</b>	Settlement infill or expansion comprising 60 dwellings. Greenfield.
	Settlement infill or expansion comprising 40 dwellings. <del>Predominantly Brownfield.</del> <b>Brownfield</b>
<b>Medium scale development</b>	Settlement infill or expansion comprising 20 dwellings. <del>50:50 Greenfield, Brownfield mix.</del> <b>Brownfield</b>
	Settlement infill or expansion comprising 16 dwellings. Greenfield.
<b>Small Scale development</b>	Settlement infill or expansion comprising 10 dwellings. <del>Predominantly Brownfield.</del> <b>Brownfield</b>
	Settlement infill or expansion comprising 10 dwellings. Greenfield.
	Out of settlement rural development comprising 6 dwellings. <del>50:50 Greenfield, Brownfield mix.</del> <b>Brownfield</b>
<b>Minor scale development</b>	1 dwelling development, not in a settlement, Agricultural brownfield land  1 dwelling development, in a settlement, Brownfield land  1 dwelling development, Greenfield site  2 dwelling development, Brownfield, in a settlement

Table 2: Table showing modifications to typologies following a review of recent evidence

37. It is recognised that the site typologies do not capture every form of development likely to come forward over the plan period. The approach is intended to be proportionate and reflects the broad range of development expected, based on available evidence.



## C IDENTIFYING RESIDENTIAL ASSUMPTIONS

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### INTRODUCTION

1. Further to identifying site typologies and hypothetical residential development sites, a range of site characteristics needed to be assumed. In addition, it was necessary to gather evidence to inform the inputs which would be used for each element of the viability equation, including the gross development value and development costs such as build costs and profits.
2. Identifying site characteristics and defining appropriate inputs was the subject of a long and iterative process of information gathering and consultation.
3. The following summarises the rationale for identifying the residential site characteristics, inputs and assumptions.

### THE EVIDENCE

4. A range of sources of evidence were used to identify residential site characteristics, inputs and assumption, including but not exclusively:
  - Application monitoring of residential development in Northumberland
  - Analysis of delivered residential schemes in Northumberland
  - BCIS Quarterly Review of Build Costs
  - Land Registry Price Paid Data
  - Evidence submitted by stakeholders including on house sizes and house values
  - Rental values, including affordable rents
  - Plan Viability Assessments from elsewhere and Examiners Reports

### GUIDANCE

5. Planning Practice Guidance provides some advice on the key factors to be taken into account in assessing viability in plan making.
6. Gross Development Value is described in the guidance as the potential value generated by development in the area. *‘On housing schemes, this may be total sales and/or capitalised rental income from developments. Grant and other external sources of funding should be considered.’ ‘Values should be based on comparable,*

*market information. Average figures may need to be used, based on the types of development that the plan is seeking to bring forward. Wherever possible, specific evidence from existing developments should be used after adjustment to take into account types of land use, form of property, scale, location, rents and yields. For housing, historic information about delivery rates can be informative.'* (Paragraph: 012 Reference ID: 10-012-20140306)

7. For an area wide viability assessment, the Guidance advises that a 'broad' assessment of costs is required, based on robust evidence which is reflective of local market conditions. All development costs should be taken into account including:
  - build costs based on appropriate data, for example that of the Building Cost Information Service;
  - known abnormal costs;
  - infrastructure costs;
  - the potential cumulative costs of emerging policy requirements and standards, emerging planning obligations policy and Community Infrastructure Levy charges;
  - general finance costs including those incurred through loans; and
  - professional, project management, sales and legal costs.(Paragraph: 013 Reference ID: 10-013-20140306)
8. The Local Housing Delivery Groups' guidance Viability Testing Local Plans: Advice for Planning Practitioners (June 2012) provides further advice on determining development value and development costs. For some of the inputs, the Advice provides figures or ranges of figures which can be typically expected but the guidance is not prescriptive.

## **IDENTIFYING RESIDENTIAL ASSUMPTIONS AND INPUTS IN NORTHUMBERLAND**

### **Site Sizes and Capacity**

9. In order to test the site typologies and hypothetical development sites within those typologies it was necessary to determine appropriate site sizes.
10. The Residual Land Valuation methodology calculates what is left to pay for land. This can only be meaningful if the amount of land required for the development is known. For each hypothetical site, it was therefore necessary to understand the likely size and capacity of development sites.

### **The developable proportion of sites**

11. Development does not occur across an entire development site. A proportion of the area is taken up by other uses including the likes of open space and access roads. The total site area is referred to as the 'gross site area' whilst the remaining area where built development will take place is known as the 'net developable area'. The net developable area is the element from which a developer can generate revenue, and is therefore key to understanding the viability of a site.
12. The SHLAA Regional Implementation Guide (March 2008) was initially referred to in order to consider defining the net developable area. The guide assumes that development on small sites will make use of existing roads and facilities and that the net developable area of a site will be the same as gross site area. On larger sites, it is suggested that part of the site will be needed to accommodate ancillary uses and services. In the case of very large sites this could also include community facilities and neighbourhood centres. The guide suggests the proportion of a site that is developable is generally as follows:

Site Size	Proportion of site that is developable
Less than 0.4 ha	100%
0.4 to 2 ha	75-90%
Over 2 ha	50-75%

Table 1: Proportion of sites that are developable

13. The SHLAA Regional Implementation Guide provided a useful benchmark to help in defining the likely proportion of a development site that should be developable, that is the 'net developable area'.
14. It was initially considered that the suggested proportions in the SHLAA Regional Implementation Guide be used, but taking a midway figure where there was a range as illustrated below:

Site Size	Assumed Proportion of Site that is Developable
Less than 0.4 ha	100%
0.4 to 2 ha	83%
Over 2 ha	63%

Table 2: Assumed proportion of sites that are developable

15. Acknowledging that there was a significant range in respect of larger sites, further information was sought to verify whether the guidance accurately reflected what was being achieved in Northumberland and to consider a more precise estimate of achieved net developable area.

16. A sample of schemes in Northumberland over 2 hectares were identified. The sample of schemes was necessarily small, as the net developable area can be complex to measure. Based on approved layout plans, the figure below demonstrates the approximate developable area, on the sample of sites and translates that into a proportion of the overall or 'gross' development site.

Name of scheme	Approximate Gross and Net developable areas (hectares)	Approximate proportion of site which is developable
<b>Chase Farm Drive (Phase 3) – 483 units</b>	Gross 14.83, Net 8.46	57%
<b>Land at 2a Chase Farm Drive (Barratt Site) - 83 units</b>	Gross 2.2, Net 1.41	64.%
<b>Wheatridge Park (Bellway) – 186 units</b>	Gross 6.28, Net 4.61	73%
<b>Land at North Road, Ponteland (Bellway), 38 units</b>	Gross 1.52 Net 1.04	69%
<b>Portland Park, Ashington (Persimmon) – 281 units</b>	Gross 9.78, Net 6.83	70%
<b>Synclen Avenue, Cramlington (Taylor Wimpey)– 18 units</b>	Gross 0.52, Net 0.35	68%
<b>Land off Cragside, Cramlington (Taylor Wimpey) – 36 units</b>	Gross 2.17, Net 1.75	81%

**Table 3: Sample of Net Developable Areas**

17. Although a small sample size, the figures suggested a slightly higher percentage of sites over 2 hectares is developable than the SHLAA Regional Implementation Guide suggests, ranging from 57%-81% (compared to the 50-75%). Furthermore, the average developable area for sites over 2 hectares in the sample was 69% which was somewhat higher than the midway point from the Guide at 63%.
18. To further verify the available evidence, advice was sought from the District Valuer Service (DVS).
19. The DVS has a dedicated team for viability work who undertake viability appraisals of individual sites on a daily basis. These appraisals are typically undertaken independently at the pre determination stage of a planning application. A number of

appraisals were reviewed. As the cases contain sensitive commercial information the full address details and parties involved are not identified.

	Location	Gross area (Ha)	Net area (Ha)	Net as % of gross	Capacity dwellings
Sites with 500+	York	39.62	26.12	65.93%	1,100
	Northallerton	50.93	26.09	51.23%	868
	Selby	30.00	24.94	83.13%	848
	Bolsover	26.94	21.31	79.10%	795
	Castleford	25.45	16.08	63.18%	560
	Boston	14.97	11.23	75.02%	500
	<b>Average</b>	<b>31.32</b>	<b>20.96</b>	<b>69.60%</b>	<b>779</b>
Sites with 100 + dwellings					
	Bradford	9.33	8.47	90.78%	272
	Leeds	7.00	5.95	85.00%	207
	Leeds	7.68	6.47	84.24%	181
	Normanton	4.30	3.10	72.09%	142
	Boston	3.57	3.20	89.64%	108
	<b>Average</b>	<b>7.19</b>	<b>5.89</b>	<b>84.35%</b>	<b>199</b>

**Table 4: Net and Gross Area of DVS analysed schemes**

20. Based on the sample, the table above identifies that in the case of schemes of 500 dwellings or more, the average gross to net ratio is just under 70%. For schemes of 100 – 500 dwellings the average gross to net ratio is just over 84%.
21. Clearly the developable area will differ from site to site and there may be legitimate reasons why these are high or low. Each site will have its own specific characteristics that will influence the area which can feasibly be developed or be chosen to be developed. Site specific viability assessments could take this into account. However, as with other assumptions, for the purposes of adopting assumptions for an area wide, plan based assessment, it is appropriate and reasonable to look to averages.
22. What is evident from both the Council's analysis and the DVS analysis is that the average net developable area of sites over 2 hectares is higher than had been initially assumed. Rather than adopting 63% as the midway point from the range in the SHLAA guide, the assumed proportion of developable area for sites over 2 hectares was increased to 70%.

Site Size	Assumed Proportion of Site that is Developable
Less than 0.4 ha	100%
0.4 to 2 ha	83%
Over 2 ha	70%

Table 5: Assumed developable proportion of sites

### House Size

23. Given the link between dwelling sizes and the capacity of sites and also their costs and values and it was necessary to understand the normal size of dwellings.
24. In identifying house sizes, a range of available evidence was considered. Preliminary assumptions were presented to the Development Viability Panel on the average size of a property according to the number of bedrooms. This was based on a sample of 21 dwelling types in Northumberland, merged with research findings from work undertaken by Scott Wilson on behalf of CABE in 2010 into average dwelling size.
25. The following table demonstrates the sample of dwelling sizes in Northumberland and compares the sample to average sizes identified through CABE research in 2010. Where Gross Internal Areas could not be identified they have been calculated using the average net to gross ratios identified in the CABE research.

Developer and house type		Address	GIA	NIA	Comments	CABE RESEARCH		
						GIA m <sup>2</sup>	NIA m <sup>2</sup>	% NIA relative to GIA
1 bed flat	Taylor Wimpey 'The Chiltern'	Croften Grange, Blyth	38.3	30	NIA includes living, kitchen, bed 1	46.32	36.54	78.30
	Bellway 'Plot 3'	Peel House, Ponteland	59.4 (calc)	46.5	NIA includes kitchen/living/dining area and bed 1			
	Charles Church Windsor Court	Park View, Alnwick	51.3	40.2	<u>NB: over 55's accommodation only</u> NIA includes living, kitchen/dining and bed 1			

Developer and house type		Address	GIA	NIA	Comments	CABE RESEARCH		
						GIA m <sup>2</sup>	NIA m <sup>2</sup>	% NIA relative to GIA
		Average	50	39				
		Average	47	47	Source: NCC Affordable Housing Viability Assessment			
2 bed flat	Charles Church  Castle Court, The Kylins	Loansdean , Morpeth	76.5	59.3	NIA includes living/dining, kitchen, bed 1, bed 2.	59.11	46.58	77.55
	Persimmon  The Dunston, South Shore	Elfin Way, Blyth	55.3	42.9	NIA includes living, kitchen, bed 1, bed 2, dressing			
		Persimmon  The Aidan  Portland development	Rothbury Drive,  Ashington	64.7	50.2	NIA includes bed 1, bed 2, kitchen, living.		
Taylor Wimpey ‘The Cotswold’		Croften Grange, Blyth	49	38	NIA includes kitchen, lounge, bed 1, bed 2, bathroom			
Average		61	48					
Average		60	60	Source: NCC Affordable Housing Viability Assessment				
2 bed house		Miller Homes ‘The Yare’	Gordon Road, Wensleydale Park, Blyth	58.6	42.7	NIA includes kitchen/dining, living, bed 1, bed 2.	69.16	50.86
	Bett Homes by Gladedale ‘The Piper’	The Hawthorns , Seventh Avenue, Ashington	65 (calculation)	47.3	NIA includes kitchen/living, bed 1 and bed 2.			
	Taylor Wimpey ‘The	Croften Grange,	55.6	40.5	NIA includes living, kitchen, bed 1, bed			

Developer and house type		Address	GIA	NIA	Comments	CABE RESEARCH		
						GIA m <sup>2</sup>	NIA m <sup>2</sup>	% NIA relative to GIA
	Rydal'	Blyth			2.			
	Cussins 'The Poppy'	The Limes, Alnwick	60.7 (calc)	44.2	NIA includes living, kitchen, bed 1 and bed 2.			
	Average		60	44				
	Average		70	70	Source: NCC Affordable Housing Viability Assessment			
3 bed house	Persimmon – the Rufford	Blyth	87	62.7	Based on room dimensions advertised	92.05	67.55	72.10
	Persimmon	Faldo Drive, Ashington	94.2	67.9	Based on room dimensions advertised			
	Charles Church – The Adamson	Morpeth	142.4	102.7	Based on room dimensions advertised			
	Miller Homes 'The Carron'	Gordon Road, Wensleydale Park, Blyth	83.1	59.9	NIA includes living, kitchen, dining, bed 1, bed 2, bed 3			
	Average		102	73				
	Average		82	82	Source: NCC Affordable Housing Viability Assessment			
4 bed house	Strutt & Parker  (detached house with separate double garage)	Hepscott, Morpeth	228.8	158.9	NIA includes living, kitchen, dining, snug, utility, study, beds 1, 2, 3 and 4 and dressing room	116.96	81.71	69.45
	Barratt Homes 'Grasmere' (semi	Chase Farm Drive,	118.2	82.1	NIA includes bed 4, utility, living, kitchen, dining, beds 1, 2, 3,			



Developer and house type		Address	GIA	NIA	Comments	CABE RESEARCH		
						GIA m <sup>2</sup>	NIA m <sup>2</sup>	% NIA relative to GIA
detached with garage)		Blyth			dressing.			
Linden Homes 'Segedunum' (detached)		Centurion Park, Haltwhistle	163.6	115	NIA includes kitchen/family, living, dining, utility, beds 1, 2, 3, 4, study.			
Average			170.2	118				
Average			110	110	Source: NCC Affordable Housing Viability Assessment			
5 bed house		Warkworth Village, Morpeth	146.5	101.9	NIA includes living, dining, kitchen, utility, beds 1, 2, 3, 4 and 5.	158.65	111.66	69.54
	Charles Church 'The Blenheim 2'	Fenton Grange, Wooler	164	114.1	NIA includes living, kitchen, dining, utility, beds 1, 2, 3, 4 and 5			
	Gentoo Homes 'The Cedar'	Humbles Wood, Prudhoe	228.8	159.1	NIA includes kitchen, dining, living, study, utility, beds 1, 2, 3, 4, and 5. (NB: garage not included)			
	Bellway 'The Fontwell'	Stannington Park, Stannington	220.3	153.2	NIA includes kitchen, breakfast, dining, living, beds 1, 2, 3, 4, and 5.			
	Average			190	132			
	Average			135	135	Source: NCC Affordable Housing Viability Assessment		

**Table 6: Sample of dwelling sizes in Northumberland and compared a sample to average sizes identified through CABE research in 2010.**

26. Initial feedback from some Development Viability panel members was that the averages presented were not representative of house sizes in Northumberland and further research was required. Caution was advised in respect of using accurate Gross Internal Areas rather than assumed.
27. After further review of a range of sources of evidence including marketing particulars and data from Energy Performance Certificates, it was determined that the available evidence could not be considered robust. Figures were often based on estimated floorspace and net internal areas could not be considered like for like as they were not consistently measured. As a result, the Council undertook more detailed research.
28. Based on recent developments across the County, a sample of over 260 house types was examined. Scaled plans, submitted as part of planning applications were precisely measured to ascertain the 'Gross Internal Area'. The gross internal area was adopted as it is the most appropriate method of measuring floor space. It is the easiest approach. It is also used in the BCIS Build costs and is the basis for imposing a CIL charge. In recognition that some house-builders use net internal areas to calculate costs and values, these were also identified where available. The method for measuring dwellings was based on guidance from the Royal Institute of Chartered Surveyors 'Code of Measuring Practice: A Guide for Property Professionals (6th edition)'.
29. The outputs could be used to determine average sizes across dwellings by type e.g. terraced, semi and detached; by the number of bedrooms; and across a particular development. For the purposes of the Viability Assessment, the most useful interpretation of the data was by number of bedrooms. The average dwelling sizes derived from the analysis were presented to Development Viability Panel members. Some members made recommendations suggesting amendments to the sizes. The averages were revised as a result of the information submitted by the Panel.
30. It was acknowledged by Panel members that the figures could only be a guide. In reality there would be houses that were bigger and smaller than the averages presented, but the averages were broadly representative and were based on a robust sample size.

	Average GIA (m2)	Average GIA (ft2)
1 Bed Flat	43.76	470.91
2 Bed Flat	71.73	771.86
2 bed house	71.47	769.02
3 bed house	93.47	1005.72
4 bed house	138.12	1486.31

**Table 6: Non-filtered Average GIA of units in Northumberland**

31. The DVS were asked to review the suggested average dwelling sizes. The DVS considered they were broadly consistent with appraisals they see, however some of the sizes were noticeably on the high side, particularly in respect of 4 bed dwellings.
32. The sample of measured dwellings was re-examined. Non-standard house types / developments were removed from the sample as it was evident these were skewing the averages i.e. a number of exceptionally large dwellings. The averages were reworked as follows:

	Average GIA (m2)	Average GIA (ft2)
1 Bed Flat	43.38*	466.94*
2 Bed Flat	66.52*	716.02*
2 bed house	65.03	699.98
3 bed house	91.75	987.59
4 bed house	124.38	1388.82
<p>* In respect of flats, the Gross Internal Areas identified above refer to the gross internal area of an individual dwelling. As flats are within a shared building, account also needs to be given to communal areas and circulation spaces such as stairwells and lifts. It is assumed the proportion of actual dwelling space compared to the ancillary and communal space is around 85% to 15%.</p>		

**Table 7: Average GIA of units in Northumberland**

33. Some members of the Development Viability Panel had queried if it was appropriate to assume the same sizes for market housing as for affordable dwellings. This was explored further. Whilst there was limited readily available information on the sizes of new affordable dwellings to explore, the sample examined suggested average affordable dwellings sizes did not differ significantly from market housing. Some were larger and some were smaller than the averages presented.
34. Housing Quality Indicators (HQIs) had initially been referred to in this regard. The HQI system had been used to measure the quality of housing schemes funded by the Homes and Communities Agency. It incorporates design standards for affordable housing providers receiving funding through the National Affordable Housing Programme (NAHP) and Affordable Homes Programme (AHP). The standards include minimum sizes, expressed as net internal areas.
35. Lifetime Homes Standards had also been initially taken into account as these could similarly influence the size of dwellings. The Core Strategy Preferred Options (Part 1 and Part 2) both identified the importance of enabling the provision of increased housing choices including in respect of specialist accommodation and appropriate dwellings for older people and vulnerable groups. The analysis determined that assumed average three and four bedroom dwelling sizes did effectively capture the space standards, however smaller properties i.e. those with 1-2 bedrooms were slightly below requirements.
36. Both the Housing Quality Indicators and Lifetime Homes Standards became outdated during the Viability Assessment process. Notably, previous standards were subsumed within new Technical Housing Standards for England which includes optional standards in relation to internal space.
37. Space standards are typically required in order to provide confidence that new dwellings have a high level of functionality in undertaking day to day tasks and activities, at a given level of occupancy.
38. To implement the new Technical Housing Standards for England requires a planning policy and a planning condition derived from that policy, attached to a planning permission.
39. The standards are prescribed according to internal space design, for example bedroom floor space per bed space. The standards are also articulated as minimum gross internal areas, which are measured on the same basis as that used for this Viability Assessment. They do however include ranges as they express the standards according to number of bedrooms but also occupancy.

40. The assumed dwelling sizes we found not to meet the space standards if dwellings were at maximum occupancy. Should evidence determine that a future planning policy is required to implement space standards in Northumberland this will therefore need to be subject to further viability testing based on potentially higher assumed dwelling sizes.

### **Housing Mix**

41. The NPPF requires local planning authorities to seek to address housing need.
42. The Northumberland Strategic Housing Market Assessment (October 2015) looked at housing need, current housing stock, the potential impact of future demographic change and reducing household size and the levels of in-migration. It suggests delivery targets for creating a more balanced housing stock which could support economic growth. The assessment breaks down the required new housing balance by tenure and by size.
43. In terms of future affordable housing delivery, the evidence indicates that schemes should be made up of 8% one bed units, 76% two bedroom units and 16% three+ bedrooms. The assessment acknowledges these levels of supply will change over time. For example, the flow of existing stock, such as older people downsizing from their larger family homes, will influence future delivery needs.
44. For market housing, the assessment identifies that 5% of delivery should comprise one bedroom units, 27% two bedroom units, 46% three bedroom units, 20% four bedroom units and 2% five bedroom units.
45. The Core Strategy aims to rebalance the proportionate split of housing to better address the impacts of demographic change and to meet the needs of younger and older people. It does not however prescribe targets for future housing delivery according to number of bedrooms. Inevitably the housing market continually changes and the Core Strategy policy approach is sufficiently flexible to respond to changing needs and demands.
46. As well as taking into account the findings of the SHMA, evidence was collected in respect of what the housing market has delivered recently as an indicator of market demand. The evidence served to demonstrate that developments in Northumberland have predominantly delivered three and four bedroom homes. There are developments that have delivered a relatively high proportion of two bedroom homes, including a number of flatted developments which have comprised

two bed flats. One bedroom flats have rarely been built. Looking at specific schemes it is also evident that the proportionate mix varies according to location, the local market and the size of the development. Small scale developments for example were often exclusively made up of homes with three or more bedrooms.

47. The analysis of delivered schemes according to number of bedrooms had to be treated with an element of caution. The evidence related principally to market housing completions with limited account taken of affordable / social and intermediate housing. However, the data did serve to demonstrate what would typically be expected in the current market i.e. the largest proportion of new housing is 3 and 4 bedroom dwellings.
48. Analysis undertaken by the DVS supported this view. It further noted the likely lack of apartments/flatted developments likely to come forward in Northumberland.
49. The DVS commented that prior to the market crash in 2008 developers were regularly looking to apartments as a way to increase scheme densities and maximise revenues. Whilst this was less of an issue in Northumberland, demand for apartments in most places fell and values decreased. This general market shift has led to developers taking a cautious approach to the apartment sector. There are likely to be only a minimal number of schemes in Northumberland including those involving conversion of existing buildings.
50. Indicative scheme mixes by number of bedrooms were presented to the Development Viability Panel taking a balanced view as to what the SHMA and market evidence illustrated. Panel members raised concerns that the suggested proportion of one bedroom dwellings was too high as these would most likely be an exception. It was also suggested that there was very limited demand for market one bedroom dwellings and Registered Providers were not looking for one bed affordable properties. The discussion echoed previous consultation findings from Northumberland's Affordable Housing Viability Assessment. However, the need for one bedroom dwellings was in part identified to address changes to the benefit system introduced by the Welfare Reform Act 2012. The so called 'bedroom tax' for tenants renting in the social sector has consequences for 'under occupancy'. Couples and single adults are deemed to require one bedroom homes. Panel members recognised the policy context but highlighted that the benefit system and associated initiatives can continually change such as in light of political change.
51. In acknowledgement of the views of the Panel members and recognising that one bedroom homes lack flexibility, and the likely minimal development of apartments, the number of one bedroom dwellings used in the modelling was reduced. It was

assumed that the suggested need would be mostly met through the provision of two bed properties.

52. It was also recognised that while there is a critical need to provide more small properties to address housing need, new schemes would need to provide a reasonable choice. Different Development Viability Panel members had varying views about the average kind of proportionate split. One suggested that broadly a split of 20% two bed, 40% three bed and 40% four plus bed could be expected to be the 'norm'.
53. The proportionate scheme mix for the purposes of the Viability Assessment was defined for each of the typologies broadly in line with the above proportionate split suggested by Panel members i.e. 20;40;40. It should be noted that numbers have been rounded and in smaller scale schemes there is more limited flexibility to achieve a full mix. It also takes into account that generally, small schemes only deliver three and four bedroom homes. Five or more bedrooms were an exception.

Typology	1 bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
Strategic Scale Settlement expansion				20%	40%	40%
Strategic Scale Settlement expansion <u>including flatted development</u>	5%	10%		20%	40%	25%
Significant scale main town or service centre infill or expansion				20%	40%	40%
Large scale settlement infill or expansion				20%	40%	40%
Medium scale development				20%	40%	40%
Small Scale development					50%	50%
Minor scale development					50%	50%

**Table 8: Northumberland Viability Assessment Assumed house type mix by number of bedrooms**

#### Site Capacity

54. Making efficient use of land is a long standing principle of planning policy. The NPPF does not identify an indicative minimum density threshold, encouraging local authorities to set out their own approach to housing density that reflects local circumstances. The Northumberland Core Strategy does not seek to prescribe minimum densities.
55. Initially the Council looked at a large sample of around 1,000 completed development schemes of over 10 dwellings from the Council's application

monitoring database to consider the kind of density of residential development that had been delivered in recent years. The sample reflected a wide range of sites across the County.

56. The data, demonstrated the differing characteristics of settlements across Northumberland and that different densities of development are suited to different places and different types of development. However the data could not be used to derive meaningful averages.
57. Given of the limitations of this approach and in view of other evidence collected it was determined that assumptions on the developable proportion of sites, house size and house type mix would better inform site capacities, along with evidence of real schemes provided by the DVS. The site capacities are translated into dwelling densities as follows:

	Dwellings per gross hectare
General development	20 -26

**Table 9: Dwellings per gross hectare (General Development)**

58. For minor scale development, the analysis of completed schemes pointed towards very diverse densities. For example infill development could mean very high density whereas there were many large plots equating to much lower densities. Overall there was a trend towards lower density development as follows:

	Dwellings per gross hectare
Minor development	5-9

**Table 10: Dwellings per gross hectare (Minor Development)**

## **Residential Values**

59. The Northumberland Housing Market has experienced the same pressures as those faced nationally since the recession. Buyer uncertainty in the market, lack of mortgage availability and job insecurity, all influenced housing demand. However, there have been firm signs of housing market recovery over a prolonged period.
60. An upturn in the national economy, continued low interest rates and stimulus such as the government's 'Help to Buy' initiative have helped to increase transactions and house prices.



61. The national picture is one of successive value increases. The annual price change now stands at 7.1%, bringing the average house price in England and Wales to £191,812<sup>1</sup>.
62. There are marked differences in the picture nationally and it continues to change. Notably, values in London and other parts of the South East have significantly outpaced other regions. According to the Nationwide Index<sup>2</sup> for Quarter 4 of 2015, prices in the capital were 50% above their 2007 peak. In the North East increases in values have been more gradual.
63. Northumberland has outperformed the wider North East with higher average house values overall and higher house price increases.
64. The RICS Residential Market Survey echoes a national picture of house prices continuing on a steady upward trend, at least partly on account of an imbalance between demand and supply.
65. The volume of housing sales has also generally been on the up. In Northumberland sales transactions were increasing year on year from 2011. Rates of housing delivery meanwhile have been more varied in the years since the recession. The year ending 2014-15 saw a significant uplift in completions in Northumberland. Furthermore, in the year ending March 2014 Northumberland was among the top 20% of authorities granting the most major housing planning consents. There is a healthy supply of extant consents and positive indications from developers that rates of completions in Northumberland will continue to increase.
66. The ONS House Price Index (April 2016) reports that the prices being paid for new dwellings has far exceeded that of previously lived in homes. During the year to January 2016, price paid for new dwellings increased by 8.3% compared to an increase of 7.9% in previously lived in homes.
67. In Northumberland according to the price paid data produced by Land Registry, the average price paid for a new build home between 1<sup>st</sup> January 2015 and 1<sup>st</sup> January 2016 was £211,271. This is well above the Northumberland average price paid in the same period. This would in part be expected as new build properties generally attract a premium.

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<sup>1</sup> Land Registry House Price Index Report January 0216 (released 26<sup>th</sup> February 2016)

<sup>2</sup> [http://www.nationwide.co.uk/~media/MainSite/documents/about/house-price-index/Q1\\_2015.pdf](http://www.nationwide.co.uk/~media/MainSite/documents/about/house-price-index/Q1_2015.pdf)

County Variations

68. There are of course variations in housing market conditions across a County as large and diverse as Northumberland.
69. In terms of new housing development, the former districts of Alnwick, Castle Morpeth and Wansbeck had seen the biggest reduction in completions post 2008/09. In Wansbeck for example there were just 246 completions between 2009-2013 compared with an annual average of 226 over the previous 4 years. Completions data is sourced from the NCC Planning Department Monitoring Team.
70. Although only a snap shot, analysis of house sale transactions for 2014, shows the highest number of sales to be in Blyth. Sales in Cramlington, Ashington and Morpeth follow, with the highest proportion of new build sales in the County occurring in Blyth, Ashington Seaton Delaval and Alnwick.
71. In 2014-15 a wide range of sites have been contributing to housing in Northumberland. A significant number of new build completions during the 2014-15 financial year took place in the South East Delivery Area (47%), with 26% of completions in the North Delivery Area, 23% in the Central Delivery Area and 4% in the West Delivery Area. There are two sites, which have a total site capacity of more than 500 units in the South East Delivery Area. These yielded 54 units and 37 units respectively in the financial year 2014-15. Three sites of between 250 and 500 units in the South East and Central Delivery Areas yielded 89, 27 and 51 units respectively. Smaller scale sites were also delivering at a reasonably high rate of between 26 and 42 units in the financial year 2014-15.
72. In the 2015-16 completion year nearly two thirds of completions have occurred in the South East Delivery Area, with around a sixth of completions occurring in both the Central Delivery Area, and the North Delivery Area, with the remaining figure of less than 3% completed in the West Delivery Area. In terms of completions by small area nearly one fifth of completions occurred in Blyth, 13% in Ashington, nearly one tenth in Seaton Valley Small Area, 7% in Amble, 6% in Bedlington, 6% in Cramlington. 4% in Ponteland, 4% in Wooler, 3% each in Morpeth, Hexham and Alnwick, and 2% in Berwick. Significant levels of completions have been experienced in the South East of Northumberland, particularly in Blyth, Ashington and Seaton Delaval, with high levels of delivery experienced also experienced in Amble, Bedlington and Cramlington. There has been strong developer interest across the South East and Central Delivery Areas, with a number of developers commencing and about to commence on sites around Morpeth.

73. In respect of values there is similarly a varied picture. Broadly speaking the highest values are in the high amenity commuter areas (the Tyne Valley, Ponteland and Darras Hall), high values in the more distant attractive accessible rural areas and market towns and in parts of the National Park and North Northumberland AONB. Values decline in less accessible upland rural areas close to the Scottish Borders and in parts of Berwick. Lower values are found in the regeneration areas of the south east Northumberland coalfield, with intermediate values in mid-market commuter areas such as Cramlington and parts of Blyth. These very broad patterns were agreed by the Panel to reflect the overall picture.
74. There can be significant differences in values at a very localised level. Often the very specific nature of a development such as its design or outlook will determine values. For the purposes of the Viability Assessment it is important to understand typical values being achieved and how they typically vary between localities and between settlements. Planning Practice Guidance states '*Average figures may be used, based on the types of development that the plan is seeking to bring forward*' (Paragraph: 012 Reference ID: 10-012-20140306).
75. Using data from a range of sources including Land Registry price paid data, house values were identified for a sample of new schemes and then more broadly across the County. The data gathered relates principally to sales values achieved. The Assessment does not rely on estimated values or the value at which a property is marketed.
76. The main report identifies the various limitations of the available evidence. Notably is it not possible to separate out values relating to affordable homes or other products such as discounted market value homes. The data is also distorted by where new homes have been built. Most data available is from the south east delivery area where development has been focussed. This is where values are generally lowest. Sales values achieved additionally relate at least in part to a period of a relatively weak and uncertain property market following the recession.
77. For new build sales, values within the lower quartile of the data collected were mostly in the south east delivery area including in Ashington, Blyth and Newbiggin-by-the-Sea. However, there were significant variations in the values of these settlements. Ashington, by way of an example, also had high value sales.
78. Values in the upper quartile of the data were mostly in the Central and North delivery areas, however there were exceptions.

79. In order to get a further picture of variations in values across the County, previously lived in sales were appraised. There remain some limitations of the evidence, principally in relation to the lack of transactions in many areas, particularly in rural areas.
80. Based on Land Registry price paid data from January 2015 – January 2016, values in the lower quartile were similarly mostly in the south east delivery area. Values in the upper quartile of the data were mostly in the Central and North delivery areas. Main settlements achieving the highest values include Ponteland, Hexham and Morpeth. There were also a number of small more rural settlements where there were very high value transactions including in Lesbury, Wark, Eshott and Whalton.
81. Whilst an understanding of the overall housing market is valuable, further more specific information on development revenue from local housing sales values is beneficial for the purposes of a Viability Assessment. Along with data collected from the Land Registry and various property websites such as Zoopla, Rightmove and Mouseprice, the DVS were asked to provide advice and guidance on values. DVS has access to data collected by the Valuation Office Agency (VOA) from Stamp Duty Land Tax Returns on all property transactions. In addition, the DVS has comprehensive property surveys from property including new build dwellings which gives an in-depth view of transactions in specific locations.

#### Revenue by Size

82. For data on house values to be meaningful in the residual land value equation and to enable them to be compared with development costs, it was necessary to identify value according to property size.
83. Using the sale value achieved and the gross internal area of properties measured, the value of a dwelling could be calculated per m<sup>2</sup>. To reiterate previous points there were limitations of the data on new build homes in respect of the geographic spread across the County.
84. The Council sought to supplement the evidence and identify revenues by size i.e. price per m<sup>2</sup> of previously lived in homes. However, whilst previously lived in home values proved to be useful by way of analysis broad value variations across the County, it was determined that they could not be used to derive meaningful averages per m<sup>2</sup>. New build homes generally attract a premium often considerably higher than previously lived in homes. They therefore did not provide a like for like comparison. Moreover, values could not be attributed according to area i.e. square metres. Unlike new build house sizes which could be ascertained, previously lived in house sizes could not be identified. The only means of comparison the data offered was based on house type i.e. detached, semi-detached, terraces.

85. The Council first used its analysis of new build house size and divided the price paid by the house size. This gave accurate results with what the Council considered only a minor margin for error. For example, in some development schemes there was more than one three bedroom house type. In these instances the price paid was divided by the average three bedroom house size for that development scheme.
86. The DVS was additionally commissioned to provide their own evidence of dwelling values. The two sets of evidence are presented in the former Viability Assessment report.
87. Based on the available evidence and applying a degree of judgement the following initial value bands were identified and shared with stakeholders:
- Low £1,600m<sup>2</sup>
  - Medium £1,900m<sup>2</sup>
  - High £2,300m<sup>2</sup>
  - Highest £2,600m<sup>2</sup>
88. Members of the Development Viability Panel queried the robustness of the value information and suggested consequentially the value figures were too high. For example, if house sizes were underestimated this would artificially inflate the value per square metre. There was also a call for explaining where the above value bands may occur across the County.
89. Whilst the Council took into account the views of panel members it was considered that the values presented were robust. Only a small number of the sample were based on asking price rather than values achieved.
90. Evidence on values was revisited based on Land Registry records of sales of new build homes in 2015/16 and are presented in the main report.
91. On review and updating of the evidence it was considered that the medium, high and highest broad value bands could be increased to reflect the values being achieved and to reflect a consistent split between the identified value bands as follows:
- **Low £1600m<sup>2</sup>**
  - **Medium £2000m<sup>2</sup>**
  - **High £2400m<sup>2</sup>**
  - **Highest £2800m<sup>2</sup>**
92. It is acknowledged that there would be variations in values at a localised level and depending to the specific nature of a scheme. The value bands therefore could only be considered broadly representative and whilst appropriate for the Viability Assessment, they could not be relied upon for site specific testing.

#### **Affordable Residential Values**

93. In considering the value of affordable housing, a number of factors need to be taken into account, including the type of affordable housing. Affordable housing can include a range of tenures and can be split into two categories as defined in the NPPF, including social rent/affordable rent and Intermediate homes which includes shared ownership, Discount Market Value homes and intermediate rent homes. These are discussed in more detail in the Strategic Housing Market Assessment. The Core Strategy proposed a 67:33 split between social/affordable rent and 'intermediate' housing, in line with the requirement of the NPPF to define tenure mixes within affordable housing policies.
94. The tenure of affordable housing has an influence on values but there are also a range of other factors to be taken into account, such as differing levels of rents derived and affected by local markets and affordability. Funding availability is also a key factor.
95. Affordable housing funding regimes have changed in recent years. Historically, affordable housing has been subsidised through grant funding administered by the Homes and Communities Agency (HCA). The Government and the HCA have more recently placed greater emphasis on the delivery of affordable homes via the development process and underpinned by Section 106 Agreements. Such schemes do not typically receive HCA grant unless there are proven viability issues. Further recent efforts have been made to try and reduce levels of subsidy while maintaining affordable housing delivery. A model of Affordable Rent was introduced by government which allowed higher rents to be charged by Registered Providers (RP's) for new affordable housing, equating to up to 80% of market rent levels (inclusive of service charges). At the same time RP's are able to 'convert' or uplift rents on existing stock to Affordable Rents from social rents where appropriate to further subsidise development. This was introduced to encourage RP's to be less reliant on grant aid for new build schemes and self-finance the schemes by charging a greater amount of rent. The SHMA findings suggest that the margin between Social Rents and Affordable Rents, in all areas is large enough to make the introduction of Affordable Rents a viable option, nevertheless there may be cases (such as in very low rent areas) where affordable rents are not sufficient and subsidy is still required.
96. Although it is considered there are areas that will qualify for subsidy, for the purposes of the Assessment, and in adopting a cautious approach, it has been assumed that no housing grant is available. If it proves grant is available the viability inevitably improves, potentially increasing the level of affordable housing that is viable.

### Affordable Revenue by Size

97. The gross development value of affordable housing can be calculated in a number of ways. For the purposes of this Assessment, revenue for social and affordable rent homes is based on homes being constructed by a developer and then sold to a Registered Provider to manage. This is normally described as the 'RP payment price' or 'transfer payment' method.
98. Gross development values were first derived by the Council from rental values. Rental values were appraised as part of the Strategic Housing Market Assessment (October 2015), broken down according to private rents, local authority rents and Registered Providers rents. It is assumed that rental values for newly built affordable development will achieve between 70% and 80% of private rents. Private rents vary across the delivery areas. County-wide average private rents have been used to derive the results below:

	Weekly rent at 70% of average private rent	Weekly rent at 80% of average private rent
1 bed	£62.30	£71.07
2 bed	£77.76	£89.07
3 bed	£93.23	£103.85 *

**Table 11: Weekly rent as a percentage of private rent**

99. The figures above were checked against Local Housing Allowance rates for Northumberland. Local Housing Allowance rates are used to calculate housing benefits for tenants renting from private landlords. The rates vary according to broad rental market areas. The above averages were found to all be within the rate limits, with the one exception of the 80% of average private rent for 3 bed dwellings marked by an \* above. This was adjusted from £106.61 per week in accordance with the lowest Local Housing Rate in the County.
100. The figures are not distinguished according to locality but provide one source of evidence of approximate rental values.
101. Applying broad brush assumptions in regard to likely management costs, repairs, maintenance and periods of void; and using a 6% yield, the capitalised value of schemes was calculated by the Council and then divided by what the Council had determined to be average house sizes.

102. For intermediate housing offers, including discounted sale prices and shared equity schemes, a range of evidence was also researched. There are inevitably complexities in determining an intermediate value as it depends on the end product. In consultation with Affordable Housing Officers it was initially determined that it was reasonable to assume 70% of the initially identified open market values. This was considered as a cautious assumption as many developers seek 80%.
103. Acknowledging there were some limitations to the approach, the DVS was asked to further appraise the affordable revenues and provide further evidence.

Street	Locality	Type	Bed	Rent pcm	Rent pa	Market Value	Transfer Value as % of MV
Glendford Place	Blyth	Det	4	810	9,720	235,000	59.07%
Allendale Rd	Blyth	Semi	4	700	8,400	235,000	49.99%
Aysgarth	Cramlington	Semi	3	580	6,960	170,000	55.40%
Meadow Close	Cramlington	Semi	4	695	8,340	230,000	50.65%
Tyelaw Meadows	Lesbury	Det	3	600	7,200	210,000	46.70%
Allerburn Lea	Lesbury	Det	4	775	9,300	285,000	46.32%
Chestnut Way	Morpeth	Det	3	650	7,800	192,500	55.98%
De Merley Gardens	Morpeth	Det	3	625	7,500	192,500	53.46%
Kirkharie Drive	Morpeth	Det	4	900	10,800	260,000	60.10%
Maple Drive	Morpeth	Det	4	750	9,000	260,000	48.91%
Fourth Avenue	Morpeth	Semi	2	525	6,300	137,500	60.74%
Maple Drive	Morpeth	Semi	3	600	7,200	192,500	50.94%

**Table 12: DVS appraisal of affordable housing revenues**

104. The DVS assumed the same tenure split of 67% affordable rented and 33% intermediate. Off-site contributions were not factored in as this is generally not the Council's preferred approach for securing affordable housing.
105. In identifying appropriate transfer values for rented units, the DVS considered the following:



- Capitalising the net rental income to a Registered Provider according to an appropriate yield; and
  - Transfer values submitted by applicants as part of their own viability assessments
106. Taking a sample of modern houses across Northumberland, which were either available to let or had recently been let, average market rents were identified. Calculating 80% of the market rent (reflecting the maximum chargeable rent for affordable rent) this was then netted down by making allowances for management, bad debts, voids and repairs and maintenance. The outputs were capitalised at a 6% yield and then transfer values were expressed as a percentage of market value as follows:
107. Of the 12 houses identified, Transfer Values show a range of 46.32% - 60.74% of the Market Value (with an average of 53.19%).
108. The DVS indicated that they typically see affordable rented units in appraisals received from developers/house builders roughly equating to circa 50 – 55% of market value.
109. At the time of undertaking the analysis the DVS commented that Registered Providers are understood to be adopting a cautious approach when taking on new affordable units. Furthermore, the National Housing Federation published a briefing paper in June 2015 in the wake of the Government's Summer 2015 Budget. There was understood to be concern in the industry from Registered Providers that measures would impact on their income levels. As a consequence there was a suggestion that there could be a downward pressure on Transfer Values, at least in the short term. Accordingly, the DVS suggested it would be prudent to model a cautious approach and adopt a transfer value equivalent to 45% of the Market Value.
110. For intermediate or shared ownership housing a similar exercise was undertaken by the DVS to arrive at transfer values as a percentage of market values. In respect of the remaining share of the property not purchased, and in effect rented from a housing association, the assumed rent is 2.75% of the value of the remaining share (being the maximum a housing association can charge). Netting the figure down with management fees etc. and applying a capitalisation calculation using a c. 6% yield the following demonstrates the transfer values assuming 50% ownership.

Street	Locality	Type	Bed	Market Value	TV as % of MV
<b>Glendford Place</b>	Blyth	Det	4	235,000	70.91%
<b>Allendale Rd</b>	Blyth	Semi	4	235,000	70.91%
<b>Aysgarth</b>	Cramlington	Semi	3	170,000	70.24%
<b>Meadow Close</b>	Cramlington	Semi	4	230,000	70.88%
<b>Tyelaw Meadows</b>	Lesbury	Det	3	210,000	70.70%
<b>Allerburn Lea</b>	Lesbury	Det	4	285,000	71.23%
<b>Chestnut Way</b>	Morpeth	Det	3	192,500	70.52%
<b>De Merley Gardens</b>	Morpeth	Det	3	192,500	70.52%
<b>Kirkharie Drive</b>	Morpeth	Det	4	260,000	71.08%
<b>Maple Drive</b>	Morpeth	Det	4	260,000	71.08%
<b>Fourth Avenue</b>	Morpeth	Semi	2	137,500	69.66%
<b>Maple Drive</b>	Morpeth	Semi	3	192,500	70.52%

**Table 13: DVS Analysis - Transfer values as a percentage of Market Value**

111. Of the sample, the DVS identified Transfer Values which show a range of 69.66% - 71.23% of the Market Value (with an average of 70.69%). The DVS indicated that they typically see intermediate/shared ownership units in appraisals received from developers/house builders roughly equating to circa 67.5 – 70% of market value.
112. Similarly, given Registered Providers apparent wary approach at the time of undertaking the analysis, it was considered a cautious approach be adopted using transfer values at the lower end of the range, being 67.5% of the market value.
113. Since undertaking the analysis, further changes to affordable housing provision have been proposed as part of planned revisions to the National Planning Policy Framework and the Planning and Housing Act 2016.
114. The impending changes and new regulations, including in respect of ‘Starter Homes’ could have a significant impact on affordable values assumed. Similarly changes to the roles of registered housing providers could influence the tenure and values of affordable homes.

## **Residential Development Costs**

### Build Costs

115. The BCIS Quarterly Review of Building prices is commonly used as an indication of build costs.
116. The BCIS data is expressed in £m<sup>2</sup> of the gross internal floor area and is derived from analysis of tender prices. It is broken down according to detailed development types for example, within residential schemes there are 44 sub categories. For the purposes of the Viability Assessment, 'general estate housing' was considered to best capture residential development across the County, except for flatted residential schemes.
117. The figures are '*contract sums excluding external works and contingencies with preliminaries apportioned by value*'.
118. The Development Viability Panel and the Home Builders Federation agreed to the use of BCIS figures. However, they emphasised the limitations of the data, in particular that the costs are based on 'preliminaries and household costs above dpc level'. They do not include the cost of foundations, roads, sewers and other service connections, and gardens and drives. The Council sought to verify this and accept there are some exceptions. However, it should be noted that foundation costs are included in the BCIS building costs.
119. BCIS utilises a regional/county factor approach to capture variations to build cost. Some members of the Development Viability Panel did not agree to applying the Northumberland factor, however no evidence was identified to justify a departure from the BCIS locational factor.
120. The DVS was asked to review whether the BCIS Quarterly Review of Build costs were appropriate and to consider any other available evidence. The BCIS Quarterly Review build cost figures were known to have certain limitations including being derived from tenders. In the vast majority of cases tender prices will be negotiated downwards. As such the BCIS figures are inherently high. In addition, the vast majority of data comes from schemes of 50 dwellings or less. They do not therefore include information from volume house builders who may be reluctant to share build cost information as it can be commercially sensitive. Volume house builders were considered to be likely to generally achieve economies of scale and be able to construct dwellings for less than a local builder.
121. The DVS commented that there were other data sources on build cost which may be taken into account.

122. The DVS identified the HCAs tender framework, called the Delivery Partner Panel. The framework was created primarily to speed up the disposal of surplus public sector land to enable residential construction to proceed. In Quarter 4 of 2013, 25 house builders were selected to be included on the panel. As part of the process panel members are invited to submit tenders for individual sites with the intention being that by 'bidding' against one another the land returns will be maximised. This is considered as a valuable source of information as it gives a clear indication of what house builders are willing or able to build houses for in a competitive situation. For large schemes (with a mean of 244 dwellings) the mean build cost ascertained from 65 tender bids across 20 sites was £866 per square metre.
123. For consistency, if the BCIS locational factor was applied to the figure derived from the HCA Delivery Partner Panel framework it would be increased to £892m<sup>2</sup>.
124. Another source of build cost information available to the DVS is that provided in viability appraisals submitted in support of planning applications. For reasons of commercial confidentiality scheme details could not be revealed. However, the DVS provided limited details from a selection of assessments undertaken by developers in support of planning applications in which the DVS have been engaged to appraise the assessments. The range of build cost estimates in these assessments is from £721 - £893m<sup>2</sup> providing an average of £802m<sup>2</sup>.
125. Although there are clearly limitations to the BCIS data, and they are considered to be high, they are commonly accepted for the purposes of plan viability assessments and are recommended as an appropriate source of data in the Local Housing Delivery Group guidance<sup>3</sup>. The BCIS figures have therefore been adopted in the viability assessment. However, in view of the additional evidence available to DVS, it was determined appropriate to apply a sensitivity test to assess larger development typologies at lower build costs.

#### Additional Normal Build costs

126. In recognition that the BCIS build costs do not include contingencies or the cost of external works such as landscaping, car parking, drainage and site services, an additional allowance has been made for such provision.

#### External works

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<sup>3</sup> Local Housing Delivery Group's guidance 'Viability Testing Local Plans Advice (often referred to as The Harman Guidance).

127. It was initially suggested to the Development Viability Panel that an allowance of 10% be made for external works on small sites and 15% on large sites. This was put forward on the basis of a number of similar assessments and the broad assumption that high density and small scale schemes tend to require more limited investment in external works, whereas larger lower density schemes had much greater external areas and are also more likely to require investment to provide connections such as utilities.
128. Some Panel members indicated that this should be higher and submitted details of external costs from a range of sites on a £ft<sup>2</sup> basis (any figures quoted in this assessment using imperial measurements (e.g. ft<sup>2</sup> and acres) have been converted to metric (e.g. m<sup>2</sup> and hectares) to ensure consistency).
129. In response to the Panel's comments further research was undertaken. No evidence could be found that supported 15% or more across all sites.
130. The DVS was asked to review the external works assumptions and consider other available evidence.
131. The DVS advised a more robust calculation of external costs was possible based on a cost per hectare rather than a percentage uplift on build costs.
132. The DVS provided details of external works across 12 sites in Northern England. From this and other experience in the market place they concluded that, up to a point, the larger the scheme the higher the costs for infrastructure and external works. On sites between 14.5 and 40 hectares external costs averaged of £468,293 per gross hectare. On sites between 3.5 and 11.5 hectares external costs averaged £325,121 per gross hectare.
133. Although there are other sources of evidence from which to derive robust external costs, percentages are commonly accepted for the purposes of plan viability assessments and are recommended as appropriate in the Local Housing Delivery Group guidance. The Council therefore reverted to assume an allowance of 10% be made for external works on small sites and 15% on large sites.

#### Contingencies

134. Contingency is an allowance for unexpected costs that could not be reasonably anticipated at the planning stage and can be expressed as a percentage of build cost. In reality, as recognised in the RICS Guidance 'Financial Viability in Planning' the

contingency will depend on *'the nature of development, the procurement method and the perceived accuracy of the information received.'*

135. It was initially put to the Panel a contingency of 2.5% on build costs be allowed for Greenfield sites, and 5% on build costs for brownfield sites. The Panel considered that 2.5% was too low. The Council reviewed a range of viability appraisals, both of specific sites and plans. There was evidence of a range of costs for contingencies within the parameters suggested i.e. 2.5 – 5%.
136. In view of the evidence, and taking the Panel members views into account the Council adopted a midway figure of 3.75% for contingency on build costs which been adopted across all sites.
137. It should be noted that some Panel members asked that build costs be expressed as an all-inclusive cost with the external and contingency costs included. Expressing the figure as an all-inclusive cost can skew the Residual Land Value calculation. Some other costs are expressed as a percentage on build costs therefore if they are calculated based on the all-in build cost they are artificially inflated. Accordingly the three components were not tallied up to a single build cost figure.

#### Abnormal costs

138. Abnormal costs could also be described as exceptional costs and as identified in RICS guidance might include *'an unusual sewerage connection facility, high levels of site contamination and the need for extensive remedial works, flooding, site boundary and stabilisation works.'*
139. Such abnormal costs are precisely as the term suggests. They are highly site specific and are very difficult to determine without detailed knowledge of a site and in many instances site investigation work. For a viability assessment at plan level, i.e. looking at broad viability, it was considered that abnormals would distort comparisons. Furthermore, based on an analysis of land supply in the plan period, including review of sites in the SHLAA it was considered many of the sites coming forward were greenfield sites where significant 'abnormals' would not be expected.
140. Some members of the Development Viability Panel argued that abnormals should be allowed for. A representation made in response to consultation on the Core Strategy specifically raised the matter. That representation included a developer's analysis of the viability of sites included in the SHLAA which included assumed abnormal costs for each SHLAA site. It was explained that this was informed by professional judgements and assumed costs such as in respect of the costs of ecological and

archaeological site assessments, known specific constraints (e.g. that would restrict the developable area), and potential design issues. Whilst the evidence was useful in identifying the type of abnormal costs that can arise, the analysis further demonstrated the variable level of the costs. It was also considered some of the assumed costs were cautiously high. This reinforced the Council's opinion that abnormals would be difficult to meaningfully assume for a viability assessment of this level. Abnormal costs were not 'known' as referred to in Planning Practice Guidance.

141. In undertaking site specific appraisals the DVS suggested that it is not normally appropriate to look at abnormal costs when undertaking plan viability studies, because these cannot normally be known until a full scheme design is completed and the relevant due diligence undertaken.
142. Notwithstanding the Council's position, in order to respond to panel members views an assumed 10% of build costs to account for abnormals was applied to brownfield land.

#### Professional Fees

143. Professional fees can include planning consultants, quantity surveyors and architects. A range of between 8%-10% of build costs were presented to the Development Viability Panel for discussion. This reflects common practise in a number of similar viability appraisals and site specific viability appraisals.
144. Panel members suggested that at least 10% on build costs should be assumed for professional fees. A range of viability assessments were reviewed and it was decided this was at the highest end of the range but could be used to ensure a cautious approach.
145. The DVS was asked to review the assumed 10% professional fees. The DVS suggested that for larger sites, which are likely to attract regional and national housebuilders they may have lower professional fees of around 6%. It was acknowledged this could vary depending on the nature of the project. A more bespoke scheme would be likely to increase costs to 8%.
146. In order to respond to panel members views, assumed professional fees were applied at 10% of build cost.

147. In view of the DVS's advice, it was determined appropriate to apply a sensitivity test to appraise lower professional fees.

#### Sales and Marketing

148. Residential sales and marketing costs will vary from site to site and in accordance with the strength of the market. It was initially suggested that an allowance was made for 3% of achieved values for sales and marketing fees, plus £500 per residential unit for legal fees. Panel members opposed this suggestion and advised the Council that sales and marketing costs should be assumed to be 6.5% on gross development value. A list of sales and marketing related costs was submitted by one Panel member as evidence. However, no details of actual costs were included in that evidence, only the types of costs.
149. In the absence of robust evidence to the contrary, the Local Housing Delivery Group guidance was referred to which identifies sales and marketing costs of between 3-5% on gross development value. Given the varying strength of the market in Northumberland, and nature of the Viability Assessment i.e. a high level assessment it was considered an assumption of 4% on gross development value (a midway point) was reasonably representative, plus £500 per residential unit for legal fees.

#### Site acquisition fees

150. Site acquisition fees adopted in the Viability Assessment are broken down as follows: 1% agent fees; 0.75% legal fees; and Standard Rate scale for Stamp Duty Land Tax. This reflects standard site acquisition fees cited in a number of similar viability appraisals and site specific viability appraisals. It also reflects the Council's knowledge of fees incurred in respect of recent land transactions. It is acknowledged that some members of the Development Viability Panel opposed the assumption and suggested it should be higher. The Council could find no robust evidence to justify a higher scale of fees.

#### Finance costs



151. Finance costs will vary according to the type of scheme and type of developer. For the purposes of the Viability Assessment, development is assumed to be fully debt funded. This is a cautious assumption as some schemes will not be entirely debt funded, particularly for large scale house builders. However it was considered appropriate for a Viability Assessment of this nature.
152. The Bank of England base rate has remained low at 0.5%, All members [*of the Bank of England Monetary Policy Committee*] agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles.<sup>4</sup>
153. Based on an understanding that availability of finance for house building remains constrained, and informed by a number of other viability appraisal assumptions, assumed finance costs are at 6.5%.

#### Section 106/Planning Obligation costs

154. Section 106 costs have been included on many applications for residential development across the county and are likely to continue to in the future, although as identified in the main report some will potentially be subsumed by within a future CIL. However there will continue to be site specific requirements which will need to be addressed through planning obligations.
155. In determining a reasonably representative assumption for planning obligation costs, the Council reviewed a sample of schemes and their related Section 106 Agreements (See Table 14). The evidence demonstrates significant variation across the County which reflects the respective planning policy requirements of the former districts. Given the variance, a meaningful average could not be identified. Relying entirely on previous contributions arising from policies contained in the current development plan fails to recognised that CIL would be likely to replace some of those costs if introduced. Furthermore it would fail to recognise new restrictions on the use of pooling contributions introduced in April 2015 through the Community Infrastructure Levy Regulations (2010) as amended. Clearly, as with all other assumptions there will be variations according to individual schemes and many schemes will come forward without an associated Section 106 agreement. Informed by the Sample, the policy requirements of the draft plan and applying professional judgement a notional sum of £500 per dwelling has been assumed. This is an assumption applied purely for the purposes of this study. In many cases the adoption

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<sup>4</sup> Bank of England Inflation Report May 2016

of a Section 106 payment of £500 per dwelling will represent a cautious approach. Many schemes do not have any Section 106 payments attached.

#### Developer Profit and overhead

156. Developers profit or return is an important component of the Viability Assessment. As stipulated in the NPPF for development to be viable it should '*provide competitive returns to a willing land owner and willing developer*'. NPPG expands in this statement. It sets out '*This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.*' (Paragraph: 024 Reference: 10-024-20140306)
157. A range of evidence and guidance was reviewed in this regard and the Development Viability Panel was consulted. It was determined that required levels of profit and overhead currently generally varied between 15 – 20% but it was important to distinguish between whether that was based on returns as a proportion of gross development value (GDV) or as a proportion of build costs.
158. Profit is closely correlated with perceived levels of risk. Although there are recognised signals of market recovery and growth and improving access to finance, the Assessment adopts a cautious approach to establishing assumptions about profit and overhead at 20% of gross development value.
159. The exception to this assumption is for small scale sites within the typologies of Small and Minor Scale development where a developer profit assumption of 17% to reflect the lower risk profile of developments of this scale.

160. The assumed profit or return on affordable housing differs. It is assumed to be lower reflecting the fact there are lower risks to a developer on delivering affordable housing. There is often a pre-sale agreement to a Registered Social Landlord prior to commencing development. The risk of take up is therefore to some extent passed to the provider rather than borne by the developer. The approach is consistent with the Homes and Communities Agency's guidelines in its Economic Appraisal Tool. It was however contested by some Development Viability Panel members. Rather than the initial 6% suggested, some Panel members asked that the figure should be higher at 8%, reflecting increased levels of risk. Others asked that 20% profit be factored in across all development (including the affordable housing element). A range of appeal decisions were examined in this regard. It was determined that it was inappropriate to allow for a full market profit level on affordable housing.

#### Build Periods, Lead in Times and Sales Periods

161. The rate of delivery of housing will be influenced by factors such as the number of developers on a site. The rates of sales will be influenced by the strength of the market and other factors such as mortgage availability. Some schemes will be delivered more quickly than the proposed assumptions and some will take longer.
162. In broad terms, it is anticipated that each individual dwelling will take around 3 months to complete, with a sales period of six months from commencement. This will provide flexibility to account for any delays in completions which may occur due, for example, to inclement weather or protracted sales periods. In accordance with the Northumberland SHLAA methodology, sites with one developer on site will be anticipated to yield 30 dwellings per annum. Where it is known that there are two developers on a site, the assumption is that housing will be delivered at a rate of 60 dwellings per annum. Evidence of completions from the financial year 2014/15 suggests this may be a slightly cautious assumption. A number of recent schemes have been delivering at an accelerated rate. However, it is not evident yet whether this is a clear trend likely to continue.

## **CONSULTATION**

163. Residential assumptions and inputs were the subject of discussion at Development Viability Panel meetings and meetings with the HBF. As discussed in previous sections, there was debate around a number of assumptions and inputs and in many instances consensus could not be reached.

## **REVISIONS AND REFINEMENT**

164. Identifying residential assumptions and inputs has been an iterative process. The advice and evidence provided by the DVS led to the revision and refinement of some assumptions which were shared through consultation on the Northumberland Core Strategy and Community Infrastructure Levy Draft Viability Assessment (October 2015).
165. Assumptions have also been revisited in view of changes to policy and legislation and based on the most up to date information such as in respect of the latest data on residential sales.

Planning Application Number	Address	Number of units (Gross)	Small Area (Delivery Area)	Decision Date	s106 fee	Sport and Play (£)	Off Site AH (£)	Open Space (£)	Community Uses & Recycling Facilities (£)	Traffic Management/ Highway Infrastructure & Public Transport (£)	Total (£)	Total minus Off Site AH Contributions (£)	s106 Contribution per dwelling (minus off site affordable housing contributions)
<b>15/03213/FUL</b>	Land South Of Edgewell Avenue Edgewell Road Prudhoe	5	Prudhoe (Central)	08/12/2015	Planning Obligations: The Owners covenant as follows –That prior to the commencement of development the Owner shall pay the play/informal space and outdoor sports facilities contribution in the sum of £13,056.00 to the Council.	13,056					13,056	£13,056	£2,611
<b>15/02221/REM</b>	Land South Of Craneshaugh, Corbridge Road, Hexham	122	Hexham (Central)	11/12/2015	Planning Obligations: 1.Affordable Housing 2. Play and Open Space Contribution – half paid prior to commencement/half paid prior to occupation of 62nd dwelling 3. Outdoor Sport Contribution - half paid prior to commencement/half paid prior to occupation of 62nd dwelling  NB – Above contributions dependant on house numbers/types to be determined at detailed stage (rough assumption made in order to compile this table based on 3 bedroom properties)	292,434	480,000				772,434	£292,434	£2,397
<b>15/01134/FUL</b>	Phase 3 Land North East Of Briar Hill, Briar Hill, Bellingham	4	Bellingham (West)	10/12/2015	Planning Obligations: Open Space and Play Contribution - £4,728 payable prior to the commencement of development for sports facilities and £8328 toward the open space and play contribution.	13,056					13,056	£13,056	£3,264
<b>15/00767/FUL</b>	Land And Buildings North Of Wylam Hills Farmhouse, Holeyn Hall Road, Wylam	36	Wylam (Central)	05/08/2015	Planning Obligations: 1. Provision of Affordable Housing (8 x Rented and 3 x Discount Market Value) 2.On-site play areas The Owner covenants to provide paly areas of 1024 m2 prior to commencement of construction of the 32nd dwelling 3. Maintenance Contribution The Owner covenants that it shall tender the open spaces to Wylam Parish Council with a bursary towards the future maintenance of £42,240.00			42,240			42,240	42240	£1,173
<b>15/00557/OUT</b>	Land North East Of Greenrigg Medburn	15	Ponteland (Central)	16/06/2015	Planning Obligations: The Owners covenant as follows – That prior to the completion of the eighth house to pay the off-site affordable housing contribution of £267,000 The s106 monitoring fee of £235 has been paid		267,000				267,000	0	0
<b>15/00046/FUL</b>	Land West of Shangrila Front Street Wark	1	Rest of Delivery Area (West)	06/03/2015	The Owners covenants as follows – That prior to the commencement of development the Owner shall pay a contributions of £1388 towards off-site play/informal open space within the parishes of Bellingham, Birtley, Falstone, Kielder, Simonburn, Tarset, and Greystead and Wark; and That prior to the commencement of development the Owner shall pay a contributions of £788 towards off-site recreational sports facilities within the parishes of Bellingham, Birtley, Falstone, Kielder, Simonburn, Tarset, Greystead and Wark and Otterburn, Rocehster, Corsenside and Kirkwhelpington.	2,176					2,176	£2,176	£2,176
<b>14/04120/OUT</b>	The Bark Pots Tea Room 9 West End Craster	6	Rest of Delivery Area (North)	22/07/2015	Planning Obligations: The Owner covenants to pay an off-site affordable housing contribution of £30,000.00		30,000				30,000	0.00	0
<b>14/03601/FUL</b>	Land South Of The Dell, Fulbeck	39	Morpeth (Central)	30/09/2015	£438,481 for the provision of affordable housing within Northumberland (to be paid in three equal tranches on completion of the 10th, 20th and 30th dwellings)			438,481			438,481	438481	£1,1243
<b>14/03592/FUL</b>	Land East Of	2	Hexham	22/01/2015	Planning Obligations: The Owner covenants as follows – That	4,352					4,352	£4,352	£2,176

Planning Application Number	Address	Number of units (Gross)	Small Area (Delivery Area)	Decision Date	s106 fee	Sport and Play (£)	Off Site AH (£)	Open Space (£)	Community Uses & Recycling Facilities (£)	Traffic Management/ Highway Infrastructure & Public Transport (£)	Total (£)	Total minus Off Site AH Contributions (£)	s106 Contribution per dwelling (minus off site affordable housing contributions)
L	13 Garden Terrace Hexham		(Central)		prior to the commencement of development the Owner shall pay the play/informal space and outdoor sports facilities contributions to the Council. The play/informal space contribution is £2776 and is to be used within the parishes of Hexham and Sandhoe. The outdoor sports facilities contribution is £1576 and is to be used within the parishes of Hexham, Sandhoe, Hexhamshire, Slaley, Acomb, Warden, Humshaugh, Wall, Chollerton and Blanchland.								
14/03086/OUT	Land East Of East Lea, East Lea, Humshaugh	20	Rest of Delivery Area (West)	07/05/2015	Planning Obligations: The Owner covenants in respect of the provision of 30% affordable housing and a contribution towards sports and recreation facilities based on the number of bedrooms in each dwelling	65,280					65,280	65,280	£3,264
14/03067/FUL	Farm Buildings East Of North Farm Rennington Village Rennington	15	Rest of Delivery Area (North)	16/01/2015	Six affordable units to be let at an affordable rent to persons in housing need. Community contribution of sum of £200 per Dwelling (a maximum sum of £3,000) as a contribution to be applied to community uses in the Parish of Rennington				£3,000		3,000	3000	£200
14/02750/FUL	St Georges Hospital, Morpeth	375	Morpeth (Central)	23/06/2015	The agreement contains the following details which are of particular note: Dated: 18th June 2015 Land: Land at the former St Georges Hospital, Morpeth, Northumberland. Parties: (1) NCC and (2) Homes and Communities agency (3) Linden Limited Planning Reference: 14/02750/FUL Planning Obligations: 1.Public Transport Contribution First instalment of £60,000 to be paid to the council prior to occupation of the first dwelling Second instalment of £60,000 to be paid to the Council within one calendar year of payment of the first instalment. 2. To pay a Children's Play Contribution of £37,500 prior to occupation of the 120th dwelling 3.Off site landscaping works – scheme to be submitted prior to occupation of any dwelling. NB – Occupation triggers requested by the developer 4.Affordable Housing - will constitute 22 Affordable rented units and 14 shared ownership	37,500				120,000	157,500	157,500	£420
15/00249/FUL	Dale Hotel, Market Place, Allendale	1	Allendale (West)	17/03/2015	Planning Obligations: The Owner covenants as follows – That prior to the commencement of development the Owner shall pay the play/informal space and outdoor sports facilities contributions to the Council. The play/informal space contribution is £1388 and is to be used within Area 5 – Allendale. The outdoor sports facilities contribution is £788 and is to be used within the Area based on Allendale.	2,176					£2,176	£2,176	£2,176
14/01442/OUT	Northumbria Police Headquarters, Ponteland	263	Ponteland (Central)	04/08/2015	Planning Obligations: 1 Payments The Owner will pay to the Council the following sums prior to the Commencement of Development: - £50,000 towards traffic management - £100,000 towards public transport improvements - £120,000		868,284		£11,250	£270,000	1,149,534	£281,250	£1,069

Planning Application Number	Address	Number of units (Gross)	Small Area (Delivery Area)	Decision Date	s106 fee	Sport and Play (£)	Off Site AH (£)	Open Space (£)	Community Uses & Recycling Facilities (£)	Traffic Management/ Highway Infrastructure & Public Transport (£)	Total (£)	Total minus Off Site AH Contributions (£)	s106 Contribution per dwelling (minus off site affordable housing contributions)
					<p>towards highway infrastructure - £11,250 towards recycling facilities</p> <p>The Owner will pay to the Council the following sums prior to occupation of the 65th Dwelling: - £50,000 towards traffic management - £100,000 towards public transport improvements - £120,000 towards highway infrastructure</p> <p>The Owner will pay to the Council the following sums prior to occupation of the 130th Dwelling: - £50,000 towards traffic management - £100,000 towards public transport improvements</p> <p>2 Site Management Plans</p> <p>The Development shall not be commenced until the following schemes have been submitted to and approved by the Council in respect of the Land: (1) a management scheme for the continued maintenance of the open space on the Land (2) a scheme to allow the public access to, and usage of the open grassed areas and wooded areas within the Land (3) a nature conservation management plan NB – Occupation triggers requested by the developer 3. Affordable Housing</p>								
14/01346/FUL	Land South West Of Nether Warden Farmhouse, Warden	1	Warden (West)	24/03/2015	<p>Planning Obligations: The Owner covenants as follows – That prior to the commencement of development the Owner shall pay the play/informal space and outdoor sports facilities contributions to the Council: The play/informal space contribution is £1388 and is to be used within Newbrough and Warden; The outdoor sports facilities contribution is £788 and is to be used within the parishes of Newbrough, Warden, Hexham, Sandhoe, Hexhamshire, Slaley, Acomb, Wall, Chollerton and Blanchland.</p>	2,176					2,176	£2,176	£2,176
14/01279/FUL	Land East Of Farmway Corbridge Road Hexham	16	Hexham (Central)	02/06/2015	<p>Planning Obligations: 1. Off-site Affordable Housing Contribution £250,000 to be paid prior to occupation of the eighth dwelling. Overage payment to be paid in accordance with paragraph 6 and the fourth schedule within 28 days of the exchange of contracts for the sale of the final dwelling. Schedule four is withheld until the final dwelling has been sold as it is commercially sensitive. 2. SuDS – to be approved by the council prior to occupation of any dwelling. 3. On site play area – maintenance sum of £25920 to be paid to council prior to occupation of the first dwelling. 4. Off- site sports facilities – sum of £25216 to be paid to council prior to occupation of the first dwelling.</p>	51,136	250,000				301,136	£51,136	£3,196
14/01251/OUT	Land West Of The Anchor Inn, Whittonstall	1	Rest of Delivery Area (Central)	31/03/2015	<p>Planning Obligations: Sports and Play Contribution To pay to the Council prior to commencement of development - £2,776 in respect of play/informal open space in the area - £1,576 towards outdoor sports provision in Prudhoe area.</p>	4,352					4,352	£4,352	£4,352
14/00698/FUL	Land North Of Rimside View, Front Street, Longframlingto	37	Rest of Delivery Area (North)	16/06/2015	<p>Planning Obligations: The Owner covenants to pay an off-site affordable housing contribution of £318,500.00 in three stages: £106,167 prior to the occupation of the 10th dwelling to be</p>	7,400	318,500				325,900	£7,400	£200

Planning Application Number	Address	Number of units (Gross)	Small Area (Delivery Area)	Decision Date	s106 fee	Sport and Play (£)	Off Site AH (£)	Open Space (£)	Community Uses & Recycling Facilities (£)	Traffic Management/ Highway Infrastructure & Public Transport (£)	Total (£)	Total minus Off Site AH Contributions (£)	s106 Contribution per dwelling (minus off site affordable housing contributions)
	n				constructed on the site. £106,167 prior to the occupation of the 20th dwelling to be constructed on the site. £106,166 prior to the occupation of the 30th dwelling to be constructed on the site. The owner also covenants to provide 5 discount market sale units								
<b>14/00372/OUT</b>	Land North Of Woodsteads U3010 Station Road To Embleton Moor Junction Embleton	36	Rest of Delivery Area (North)	25/09/2015	Planning Obligations: 1. Provision of Affordable Housing (6 x DMVU) 2. Sports Facilities Contribution of £200 per dwelling 3. Off-site affordable housing contribution - £113,750 prior to occupation of 15 dwellings and another £113,750 prior to occupation of 30 dwellings S106 Monitoring Fee - £560 paid and credited to code 240010.320070	7,200	227,500				234,700	£7,200	£200
<b>13/03937/FUL</b>	Land To North Of Spring Ville East Sleekburn Bedlington	48	Bedlington (South East)	20/05/2015	Planning Obligations: The Owner covenants to pay an off-site affordable housing contribution of £67000.00 prior to the occupation of the 24th dwelling to be constructed on the site.		67,000				67,000	£0	£0
<b>13/02985/FUL</b>	Dismantled Railway East Of Edendale Avenue Malvins Road Blyth	58	Blyth (South East)	02/03/2015	1. Affordable housing – 7 dwellings, invites to Affordable Housing Provider(s) to purchase the units to be sent within 6 months of commencement of development.  2. Contributions: (a) Off-site children's play space contribution - £22,272 (subject to increase to reflect RPI) (i) £7,424 upon completion of the 20th dwelling house (ii) £7,424 upon completion of the 40th dwelling house (iii) £7,424 upon completion of the 57th dwelling house (b) Off-site outdoor sports contribution - £13,282 (subject to increase to reflect RPI) (i) £4,428 upon completion of the 20th dwelling house (ii) £4,427 upon completion of the 40th dwelling house (iii) £4,427 upon completion of the 57th dwelling house  NCC Obligations: 1. To repay the party making the contribution such amount which has not been expended in accordance with the provision of the agreement within 5 years of the date of receipt by the Council of such payment.	35,554					35,554	£35,554	£613
<b>13/02762/FUL</b>	Land North Of Windsor Drive Windsor Drive Blyth	25	Blyth (South East)	07/01/2015	1. Sports and Recreation Contribution - The Owners covenant to pay to the Council the Sports and Recreation Contribution no later than the date of the Commencement of Development and that the Commencement of Development shall not take place unless and until the Sports and Recreation Contribution is paid in full to the Council.  2. - Affordable Housing - 2.1 That Commencement of Development shall not take place unless and until an Affordable Housing Scheme has been approved by the Council in writing. 2.2 Not more than 50% of the Open Market Dwellings shall be Occupied until all the Affordable Housing Units have been	30,680					30,680	£30,680	£1,227



Planning Application Number	Address	Number of units (Gross)	Small Area (Delivery Area)	Decision Date	s106 fee	Sport and Play (£)	Off Site AH (£)	Open Space (£)	Community Uses & Recycling Facilities (£)	Traffic Management/ Highway Infrastructure & Public Transport (£)	Total (£)	Total minus Off Site AH Contributions (£)	s106 Contribution per dwelling (minus off site affordable housing contributions)
					constructed, transferred and dealt with in accordance with the Affordable Housing Scheme. 2.3 The Affordable Housing Units shall only ever be made available to a person in Housing Need and his Household in accordance with the Northumberland Eligibility Criteria.								
												Average per dwelling (where s106 agreed)	£1,918

Table 14: Table showing s106 agreements on applications for residential development decided in 2015 in Northumberland

## **D IDENTIFYING COMMERCIAL DEVELOPMENT TYPOLOGIES**

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### **INTRODUCTION**

1. Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. As described in National Planning Practice Guidance, site typologies may be used to determine viability at policy level.  
(Paragraph: 007 Reference ID: 10-007-20140306)
2. In identifying appropriate site typologies for Northumberland a range of evidence was reviewed to consider the nature of future commercial development.
3. The following summarises the findings of interrogating the available information and the rationale for identifying each of the proposed commercial typologies.

### **THE EVIDENCE**

4. Northumberland's Employment Land and Premises Demand Study (July 2015), Long Term Sectoral, Employment and Land Use Projections (2014) and Employment Land Schedule 2014/15, all provide information on the likely supply of employment land and nature of commercial development over the Core Strategy plan period.
5. The Employment Land Take Up Study 1999-2014 (August 2015), meanwhile provides evidence of the types of commercial development which have been delivered. This has to be treated with an element of caution because the pattern of future development may not reflect that of past development, which came about under past or existing planning policies and market conditions.

### **GUIDANCE**

6. The Local Housing Delivery Group's guidance 'Viability Testing Local Plans Advice for Planning Practitioners' (June 2012) advocates the use of site typologies and suggests a reasonably wide variety of sites should be considered. For different site types the guidance sets out that there are different average characteristics that have a bearing on the viability calculation. Whilst the guidance is primarily focussed on residential

development, it includes some factors with a potential impact on viability of commercial development including:

- Differential costs of infrastructure depending on site size.
- The potential for 'abnormal' costs such as remediation and decontamination on previously used sites, in addition to costs of site clearance.
- The value at which land will be released for development.
- The significant variations in strength of a market across a local authority area.

## **IDENTIFYING COMMERCIAL DEVELOPMENT TYPOLOGIES IN NORTHUMBERLAND**

7. Taking account of the guidance, a review of the available evidence was undertaken to ascertain likely commercial development types in Northumberland in the Core Strategy Plan period.

### Supermarkets (A1)

8. In Northumberland, supermarket development is likely to occur in or adjacent settlements independently or as part a mix of other development.
9. The scale of supermarket development will determine its likely setting. For example a large scale supermarket would be anticipated in main town or service centre location. A more rural location would be unlikely to be attractive to the market and unlikely to be supported by the policies in the Core Strategy. Depending on scale it may also be more likely for a large scale supermarket to be on greenfield land due to the shortage of brownfield sites of sufficient scale.
10. In previous years there has been a shift in supermarket development. The large operators have generally been shifting away from the development of new large stores. Smaller format store development has increased, suited to changing consumer trends which have moved towards more 'top-up' shopping.
11. Supermarket developments of notable scale in the County have included the redevelopment of two Morrison's stores in Blyth and Morpeth.
12. Smaller supermarket developments could occur in a range of contexts such as in Main Towns and Service centres, along with smaller settlements and edge of

settlement locations. These developments come forward on both greenfield and brownfield land, and could include conversions of existing premises.

13. Many new developments by the big four supermarket operators have been below 280m<sup>2</sup> in size, which is of significance for current Sunday Trading Laws. Below the threshold the stores are able to trade for longer hours. This type of development is often delivered on brownfield infill sites, but also as part of new development schemes and conversions/changes of use.

#### Retail Warehouse (A1)

14. Retail warehouse development has accounted for some employment land take up in recent years and is expected to continue particularly in or adjacent main towns.
15. Although sharing some of the characteristics of supermarkets, retail warehouses there are different factors which influence their development, the type of goods provided and trips generated.
16. Whilst some of these developments in Northumberland in recent years have come forward on brownfield sites e.g. Hexham Goods Yard, it is likely that the future development of this type would come forward on a mix of both brownfield and greenfield sites.

#### A1-A5 Small Retail/Service uses

17. Small retail and service type development are likely to occur across all Delivery Areas and settlements. This type of development is likely to be delivered on brownfield infill sites/premises, but also as part of new development schemes.

#### Town Centre Offices

18. There can be positive demand for town centre offices, due to the other services and lifestyle, town centre locations can offer. However older premises exist which often offer cheaper rents than new build premises.
19. Few new town centre offices have been created in the County in recent years although this could change as the Northumberland economy grows and strengthens. Town centre offices are likely to be delivered on brownfield sites or through conversions.

#### Out-of-Town Office

20. In Northumberland, out-of-town offices have generally been developed on the edge of settlements, close to key transport nodes associated with certain Main Towns. The majority of this type of development has traditionally been delivered on Greenfield sites, due to the scarcity of brownfield land in suitable locations. There are however some settlements and neighbouring parts of Tyneside with a current oversupply, which is likely to dampen new development at least in the short to medium term.

#### Industrial/Manufacturing

21. Industrial and manufacturing developments in Northumberland are likely to come forward within certain Main Towns including but not exclusively Cramlington, Blyth and Prudhoe. This type of development would be encouraged on brownfield sites, such as sites around the Blyth Estuary, although there are instances where it will take place on greenfield sites.

#### Light Industrial (B1c)

22. There is some evidence of demand for light industrial development in Northumberland such as in Morpeth and South East Northumberland. These developments could come forward on brownfield or greenfield sites.

#### Storage and Distribution

23. There are a number of areas in Northumberland suited to storage and distribution uses including sites with large outdoor storage.
24. Developments often require significant space and would usually be located close to major transport nodes including strategic highways but also the County's Ports. It is envisaged that these are likely to come forward on a range of brownfield and greenfield sites.

#### Hotel (Out of Centre)

25. Given the significance of tourism to the County and the level of economic growth proposed through the Core Strategy an out-of-centre hotel development may come forward. It is likely that this will occur close to transport nodes potentially on the periphery of a Main Town.

### Leisure Attraction

26. Leisure attractions cover a wide range of developments that can be difficult to forecast as they are often distinct and change in light of market trends. For the purposes of assessing viability, big box leisure development, e.g. cinema, bingo hall, bowling alley, could be considered typical. It is anticipated that this type of development would come forward on greenfield sites due to the scarcity of brownfield sites in suitable locations.

### Other typologies

27. Tourism development is a notable missing typology given its significance in the County. The Core Strategy describes leisure and tourism as a key economic sector supporting high levels of expenditure and jobs.
28. Some tourism and leisure related development is included in the development types identified. For example, the likes of cafes, restaurants and shops are in the most part small retail or service uses. More specific tourism facilities can vary considerably and in the past have included visitor centres at major attractions such as Alnwick Castle and Gardens and the more recent addition of Northumberlandia, a landform sculpture and public park created to the west of Cramlington as part of a scheme of mitigation associated with surface mining development.
29. There have been proposals for a new holiday and leisure park in the County. The scheme includes a range of sports and leisure facilities and tourist residential accommodation. Whilst the fact the scheme has been explored is a positive indication of market demand for future tourism development, such schemes are difficult to anticipate and there is limited market evidence to be able to appraise viability.
30. Holiday lets are similarly a missing development type, which are an important component of Northumberland's tourism sector. Planning conditions are sometimes used to prevent long term occupancy which means they are retained as holiday lets rather than permanent residences to be considered as a regular dwelling. The Council has received and continues to receive a number of applications for holiday lets varying from conversions of agricultural buildings, new build houses and the likes of chalets and cabins. They are frequently in the North and West Delivery Areas. However, it can be difficult to distinguish them from general housing development. Moreover, anecdotally their rental potential and value can vary significantly. The Council canvassed some holiday let companies in Northumberland who suggested

that weekly letting values and likely void periods were highly dependent not only on very precise locations but also the quality of interior fit outs.

31. Some very small scale development types are also expected in the plan period. In any instance they would not be liable for the Community Infrastructure Levy. Non-residential developments providing an addition of less than 100m<sup>2</sup> in gross internal floor area (new floor-space) will not pay CIL. For example a small new rural workshop development or extension of less than 100m<sup>2</sup> would not be liable for CIL.

## CONSULTATION

32. Through early consultation, stakeholders agreed to the Council's approach to using a range of appropriate site typologies reflecting the mix of sites upon which the Core Strategy relies.
33. The following typologies emerged. There was limited consultation feedback on the typologies and schemes. This was in part attributed to there being limited stakeholders represented on the Development Viability Panel who are actively engaged in commercial development. Moreover, it perhaps reflected the very diverse nature of Northumberland and difficulty in identifying commonly occurring development types. It also possibly reflected the uncertainty of the commercial development market at the time.

Typology	Commercial Site Typology Definition and Use Class
A	A1 - Large supermarket
B	A1 – Small supermarket
C	A1 - Retail warehouse
D	A1 - A5- small retail/ service
E	B1a - Town Centre
F	B1a - Out of centre
G	B2 - Industrial / Manufacturing
H	B1c/B8 - light Industrial / distribution
I	C1 hotel - out of centre
J	Leisure

Table 2: Initial Commercial Site Typologies

## REVISIONS AND REFINEMENT

34. Reflecting the iterative nature of undertaking a plan viability assessment and the time passed since the typologies were initially identified they were revisited.
35. Additional typologies were identified. Notably a third supermarket type was identified to reflect the increasing shift towards small format stores of less than 280m<sup>2</sup>. Storage and distribution was also identified as a separate typology to acknowledge the specific characteristics of this form of development which could have a bearing on viability.

Typology	Commercial Site Typology Definition and Use Class
A	A1 - Large supermarket
B	A1 – Small supermarket
C	A1 mini supermarket
D	A1 - Retail warehouse
E	A1 - A5- small retail/service
F	B1a - Town Centre
G	B1a - Out of centre
H	B2 - Industrial/Manufacturing
I	B1c/Light Industrial
J	B8 storage/distribution
K	C1 hotel - out of centre
L	Leisure

**Table 2: Refined Commercial Site Typologies**

36. As identified in the main report and discussed in guidance, it is recognised that the site typologies do not capture every form of commercial development likely to occur in Northumberland over the Core Strategy plan period. The approach is intended to be proportionate and reflects the broad range of development expected.



## **E IDENTIFYING COMMERCIAL ASSUMPTIONS**

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### **INTRODUCTION**

1. Further to identifying commercial site typologies, a range of site characteristics needed to be assumed. Evidence was gathered to inform the inputs which would be used for each element of the viability equation, including the gross development value and development costs.
2. Identifying site characteristics and defining appropriate inputs was the subject of an iterative process of information gathering.
3. The following summarises the rationale for identifying the commercial site characteristics, inputs and assumptions.

### **THE EVIDENCE**

4. A range of sources of evidence were used to identify commercial site characteristics and inputs, including but not exclusively:
  - Application monitoring of commercial development in Northumberland
  - Analysis of delivered commercial schemes in Northumberland
  - BCIS Quarterly Review of Build Costs
  - Rental values
  - Plan Viability Assessments from elsewhere and Examiners Reports

### **GUIDANCE**

5. Planning Practice Guidance provides some advice on the key factors to be taken into account in assessing viability in plan making.
6. Gross Development Value is described in the guidance as the potential value generated by development in the area. On retail and commercial development, the guidance suggests broad assessment of value in line with industry practice may be necessary (Paragraph: 012 Reference ID: 10-012-20140306).

7. For an area wide viability assessment, the Guidance advises that a '*broad*' assessment of costs is required, based on robust evidence which is reflective of local market conditions. All development costs should be taken into account including:
- build costs based on appropriate data, for example that of the Building Cost Information Service;
  - known abnormal costs;;
  - infrastructure costs;
  - the potential cumulative costs of emerging policy requirements and standards, emerging planning obligations policy and Community Infrastructure Levy charges;
  - general finance costs including those incurred through loans; and
  - professional, project management, sales and legal costs.

(Paragraph: 013 Reference ID: 10-013-20140306)

## **IDENTIFYING COMMERCIAL ASSUMPTIONS AND INPUTS IN NORTHUMBERLAND**

### **Site Sizes and Capacity**

8. The Residual Land Valuation methodology uses costs and values based on floor area created. For each typology it was therefore necessary to understand the likely size of the development in respect of floor space and also the area of land required.
9. Different types of commercial development will take very different forms. In contrast to housing in the County, which can be more readily characterised, commercial development is far more diverse. For example, town centre offices could take the form of floor space above shops or it may be a stand-alone office development. Depending on its context it could also look very different, albeit in Northumberland it is unlikely that office development would take the form of high structures with more than around 3 or 4 storeys. Industrial type development could similarly take many forms depending on the specific requirements of a particular business and what it produces.
10. A sample of developments in Northumberland, within the typologies, was identified for further analysis. What became apparent was that the sample was necessarily small as not all types of development regularly occur or have occurred recently. No suitable leisure schemes were identified which could be considered typical. It was also evident that accurate details were difficult to obtain or required further

interpretation on a site specific basis. For example, site boundaries and planning application boundaries varied and couldn't be compared on a like for like basis. Recent supermarket developments for example shared large areas of car parking with wider town centre parking provision. Other schemes in the sample gave what looked like more reasonably representative results but similarly could not be measured and analysed on a comparable basis. The table below captures the findings.

Use Class, Definition and Typology	Application description	Application Number	GIA (m <sup>2</sup> )	Site coverage (%)	Site size (ha)	Site Size (m <sup>2</sup> )
<b>A1 - Large supermarket</b>	Morrisons - Morpeth	11/00408/FUL	4,853	17	2.9	29000
	Tesco - Berwick	N04/B/0340	6,319	21	3.04	30420
	Sainsburys - Alnwick	A/2006/0376	3,549	14	2.57	25700
	Morrisons - Blyth	10/S/00318/FUL	4,088	37	1.10	11090
<b>A1 - Small supermarket</b>	Aldi - Blyth	B/07/00099/FUL	1,395	24	0.58	5800
	Aldi - Cramlington	B/00/00437/FUL	1,247	23	0.54 6	5460
<b>A1 - Retail warehouse</b>	5 retail units, Blyth Retail Park, Cowpen Road	B/04/00636/OUT	4,181	11	3.8	38000
	4 retail units, Westmorland Retail Park, Cramlington	11/03217/FUL	6,479	13	5	50000
	3 retail units, Goods Yard, Hexham	12/02917/FUL	3,957	20	1.93	19300
<b>A1 - A5-small retail/ service / mixed use</b>	6 no. A1 retail units, Manor Walks, Cramlington, and subsequent change to internal layout and change of use apps.	B/02/00061/FUL and 11/02502/FUL	4,302	76	0.56	5647
	Mixed development including ground floor retail units, Lagny Street, Alnwick	A/2007/0012	2,656	86	0.31	3100
	Mixed use development including development of a smaller A1 town centre units, Sanderson Arcade. Also includes bus station, offices etc.	CM/06/D/13 3	5,839	60	0.96	9670
	Pub, Northumberland Business Park, Cramlington	B/09/S/00319/FUL	1,163	19	0.61	6100

Use Class, Definition and Typology	Application description	Application Number	GIA (m <sup>2</sup> )	Site coverage (%)	Site size (ha)	Site Size (m2)
<b>B1a and mixed use- Town Centre</b>	Spetchel Centre, Prudhoe (library with offices/community space)	T20100500	522	31	0.17	1712
	Council offices, Cramlington	B/05/00097/REG3	1,278	13	0.95	9500
<b>B1a - Out of centre</b>	12 office units, Greensfield Park, Alnwick	A/2006/0516	2,521	22	1.13	11300
	19 office blocks, Northumberland Business Park	B/05/00553/REM	16,243	40	4.07	40700
	24 office blocks and 6 industrial units, Ramparts Business Park, Berwick	N07/B/0176	8,683	36	2.42	24240
<b>B2 - Industrial/ Manufacturing</b>	Akzo Nobel Paint Manufacturing Plant	11/03008/FU LES	16,435	16	10.23	102300
	Hackett Chains, Alnwick	A/2006/0368	1,765	36	0.491	4910
<b>B1c - light Industrial/ distribution</b>	3 light industrial units (B1, B2, B8) - Nelson Park West	B/08/00326/FUL	3455	40	0.86	8600
	14 light industrial units - Lion Heart Estate, Alnwick	11/02444/FUL	1,560	12	1.33	13300
	2 light industrial units, Ramparts Business Park, Berwick	N/06/B/1063	842	33	0.25	2582
<b>C1 hotel - out of centre</b>	40 bed hotel, land adjacent to Morrisons, Berwick upon Tweed	N/04/B/0161	661	16	0.42	4208

Table 1: Sample of Commercial Developments in Northumberland

- Given the complexity of measuring sites and floor space of existing schemes a number of plan viability assessments from across the Country were appraised. Advice was also provided by the Council's Strategic Estates Team on commonly accepted industry standards or common assumptions. Based on the data and advice, averages were derived. It should be noted that only developments of over 100m<sup>2</sup> are included.

Typology	Definition and Use Class	Assumed GIA (m <sup>2</sup> )	Assumed Site coverage (%)	Assumed Site size (ha)
<b>A</b>	A1 - Large supermarket	2,500	40	0.64
<b>B</b>	A1 – small supermarket	1,200	30	0.4
<b>C</b>	A1 – mini supermarket	270	70	0.04
<b>D</b>	A1 - Retail warehouse	2,300	40	0.58
<b>E</b>	A1 - A5- small retail/service	270	70	0.04
<b>F</b>	B1a - Town Centre	1,150	115	0.05
<b>G</b>	B1a - Out of centre	3,200	50	0.64
<b>H</b>	B2 – Industrial/Manufacturing	*2,900	40	0.73
<b>I</b>	B1c - Light Industrial/distribution	*3,600	40	0.9
<b>J</b>	B8 – storage and distribution	6,900	35	1.99
<b>K</b>	C1 hotel - out of centre	2,500	60	0.42
<b>L</b>	D2 Leisure	2,800	40	0.7
*development assumed to comprise single large unit or group of small units				

**Table 2: Northumberland Commercial Development Typologies**

12. With the exception of mini supermarkets and distribution, which were slightly later additions, the assumed broad site coverage was shared with the Development Viability Panel.
13. It is important to emphasise that in reality there could be a wide range of scheme sizes. As referenced above there are many factors that will influence the scale of development including the nature of any particular business, or use. It was considered that the averages presented provided reasonably representative sizes for the purposes of viability testing, based on the available evidence and informed by professional advice.

## **Commercial Values**

14. To appraise matters of deliverability and to determine the gross development value of schemes, it is necessary to understand broad commercial market conditions.
15. The Northumberland Employment Land Review and the Northumberland Employment Land and Premises Demand Study provide a picture of the economic conditions and trends in the County. They also look at the Commercial property market in detail. The following provides a brief synopsis of the findings from those studies and other available evidence.

## **Northumberland Commercial / Non-residential Market**

16. The commercial property market was deeply affected by recession. The Northumberland Employment Land Review reports that there were reductions in capital and rental values of up to 40% at the lowest point in the cycle. Added to this, funding issues (including stricter lending criteria and increased costs, i.e. through the removal of empty rates relief and severe cuts to public sector expenditure) meant that commercial property development was less profitable and far riskier than it was previously. As a result, speculative property development outside London became rare. This was even more acutely felt in more economically marginal locations such as Northumberland.
17. In spite of the recession, a range of new industrial developments have taken place in Northumberland over the last 10 years or so, predominantly in the south east of the County, notably at Nelson Industrial Estate at Cramlington providing new accommodation from 46m<sup>2</sup> (500ft<sup>2</sup>) up to 2,787m<sup>2</sup> (30,000ft<sup>2</sup>) on a speculative basis. There have also been good quality new office developments in the County, although take up success has been mixed. Northumberland Business Park has been the most successful in terms of amount of space disposed of. Elsewhere in the County the Review identifies very localised markets. This is a picture reflected in the views of the Development Viability Panel who indicated that there had been successes in Cramlington due to its location and catchment but viability elsewhere in the county was far more challenging.
18. Focussing on more recent developments within the last three years, it is apparent there has been relatively limited commercial/non-residential being completed and no significant scale speculative development. There are however notable exceptions including industrial/warehouse buildings or extensions at Nelson Industrial Park in Cramlington, an industrial unit at Lionheart Enterprise Park in Alnwick, a paint manufacturing plant at Ashwood Business Park in Ashington, and a new wind turbine drive train test facility as part of the National Renewable Energy Centre in Blyth. Other commercial/non-residential schemes of note have included a new multiscreen cinema, leisure and retail development in Cramlington and supermarket schemes in Blyth, Morpeth and Berwick. Smaller scale schemes have included a number of conversions and new build holiday lets across the county, particularly in coastal locations and in close proximity to the National Park and the AONB's.
19. Using the Local Planning Authority's Applications Monitoring database it is possible to identify a snap shot of applications for commercial / non-residential development

with consent including those already under construction. Notable schemes include a number of further developments for holiday lets and cabins across the County, industrial units at North Sunderland industrial estate, training and maintenance facilities at the Egger site in Hexham, a new Leisure and Community Centre in Ashington and various alterations and extensions to existing industrial units. There are also a number of renewable energy schemes.

20. It is difficult to determine from the applications coming forward whether there are clear signs of recovery and whether more commercial development is coming forward. However, nationally the outlook is one of an improving position. The latest review from the Office for National Statistics (ONS), published April 2015<sup>1</sup>, highlights positive signs of economic recovery. The second estimate of GDP indicates that the UK economy grew by 0.3% in Q1 2015 and was 2.4% higher when compared to the same quarter a year earlier (Jan to Mar 2014). However the relative percentage increase has fallen from that seen in Q1 2014 when there was growth of 0.8%. Data from the latest Regional Economic Indicators Report (July 2014)<sup>2</sup>, published by the ONS, shows that the North East has the highest value of goods exports relative to the size of the economy at 30.8%, this compares to the lowest figure of 11.3% for London. However the region continues to contribute just 3 per cent of the UK's GVA (Gross Value Added), a figure which measures the value of economic output, with the headline GVA for the North East being £41.9 billion in 2012. This represents a 1.7% increase since 2011, a level of growth slightly above the UK average over the same period (1.6%).
21. In respect of the property market, the Q1 2015 RICS UK Commercial Property Market Survey<sup>3</sup> highlights continued strengthening in both the occupier and investment sectors, with the pace at which conditions are improving having accelerated relative to the previous quarter. Increasingly tight market conditions are leading to strong rental expectations, with those for Q1 2015 equaling the highest level on record. Over the next twelve months rental values are projected to continue to rise in the office and industrial sectors, with particularly strong projections for offices expected in the short term and then over the next 3 years. Expectations for the retail sector, whilst still being positive, continue to lag behind somewhat. Specifically in the North

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<sup>1</sup> <http://www.ons.gov.uk/ons/rel/gva/gross-domestic-product--preliminary-estimate/q1-2015/index.html>

<sup>2</sup> [http://www.ons.gov.uk/ons/dcp171776\\_369754.pdf](http://www.ons.gov.uk/ons/dcp171776_369754.pdf)

<sup>3</sup> <http://www.rics.org/Global/RICS%20UK%20Commercial%20Property%20Market%20Survey%20-%20Q1%202015.pdf>

East, it is considered that a continued improvement in the general market is apparent, although there is still a degree of caution being exercised by investors. Overall, whilst an oversupply means there are a lot of vacant offices in the region, some experts consider there to be a shortage of “good quality” office and industrial space. It is considered that rental demand, particularly for offices, is increasing and that confidence to develop new office and industrial space is increasing, despite returns from new development continuing to be “marginal at best.”

22. The completion of a speculative business park across the authority’s boundary in North Tyneside is also a positive signal of recovery. The Elm Park development at West Chirton was developed by the Hellens Group. However it was not entirely privately funded. Having stalled, the scheme was backed by a £460,000 loan from the North East Local Enterprise Partnership’s (LEP) North East Investment Fund and £1.1m from the European Regional Development Fund (ERDF). Without the subsidy the company could not have brought forward the development. There have been positive signals of demand for the new premises.

## **Commercial Development Revenue**

23. In contrast to data on residential development revenues, which relates mostly to house values achieved, commercial revenue data comes mostly in the form of rents and yields and is more complex to analyse. A leasehold transaction is usually based on a rate per ft<sup>2</sup> (or per m<sup>2</sup>). However the face value will be influenced by often unknown factors such as lease terms, rent review cycles, repairing obligations, and rent free periods or other incentives. Freehold transactions are similarly based on values per ft<sup>2</sup> or per m<sup>2</sup> but are capital values. They are likewise influenced by factors that may not be apparent.
24. As the details behind commercial values are not often known, because they are likely to be commercially sensitive, professional judgment must be applied. The Council sought to use published data including property market reports as well as anecdotal evidence, such as the views expressed by members of the Development Viability Panel.
25. It was not possible to capture every value in respect of the wide range of commercial uses, nor the full picture of variation across the county. Instead a proportionate and practical approach was taken to identify what is considered to be reasonably representative.

### **Rents**



26. A range of information was reviewed to identify current commercial rents, including reviewing web sites such as Estates Gazette, local agent's web sites and the Employment Land and Premises Demand Study 2015. Town Centre Health check reports were also examined.
27. The following table provides a summary of the evidence collected which was presented in at an earlier stage in more detail in previous iterations of the Viability Assessment. Limited evidence was available in some areas because there have been few premises available to rent or premises were not being actively marketed. Much of the information available may be of limited value as it relates to older premises rather than new developments which is the focus and purpose of the Viability Assessment. For newer development rental values were not normally advertised as these would be likely to be subject to negotiation.

Northumberland Core Strategy and Community Infrastructure Levy Viability Assessment: June 2016  
APPENDIX E

Type of premises	Address	Size	For sale or to let	Price/Rent	Approx £m <sup>2</sup>	Approx £ft <sup>2</sup>	Approx £ per acre	Date
<b>Industrial</b>	WILLOWBURN TRADING ESTATE, ALNWICK, Northumberland	2.475 Acres	For sale	£750,000	£30	£3	£122,684	April '14
<b>Retail</b>	Narrowgate Alnwick	2,874 ft <sup>2</sup> (267m <sup>2</sup> )	For sale	£200,000	£749	£70	£303,265	April '14
<b>Retail</b>	111 Station Road, Ashington, Northumberland, NE63 8RS	Total Area Approximately: 477.60m <sup>2</sup> (5,141.07ft <sup>2</sup> )	For sale	£385,000	£806	£75	£326,362	April '14
<b>Retail</b>	Wagonway Road, Alnwick, Northumberland, England	Site Area 0.6 acre	For sale	Guide Price £350,000	£144	£13	£583,333	April '14
<b>Industrial</b>	Coopies Haugh, Coopies Lane, Morpeth, Large Unit, with Three Workshops	Workshop One approx 124m <sup>2</sup> . Workshop Two approx 114m <sup>2</sup> Workshop Three covers area of 114m <sup>2</sup>	For sale	£350,000	£994	£92	£402,558	April '14
<b>Retail</b>	Coopies Lane, Morpeth, Commercial Property	The combined workshop and office space covers an area of approximately 116.12m <sup>2</sup> (1250ft <sup>2</sup> ).	For sale	£310,000	£2,669	£248		April '14
<b>Industrial</b>	Blyth Riverside Business Park, Blyth, Northumberland, NE24 4RG	101,347ft <sup>2</sup> (9,415m <sup>2</sup> )	To let	£150,000 pa	£16	£1	£6,450	April '14
<b>Retail</b>	Black and Grey, Newgate Street, Morpeth, Northumberland, NE61 1BU	N/A	To let	£22,000 pa				April '14
<b>Retail</b>	12b Woodhorn Road, Ashington, NE63	49ft <sup>2</sup> (4m <sup>2</sup> )	To let	£12,000 pa	£3,000	£279	£1,214,575	April '14
<b>Industry</b>	Block 57, South Nelson Road, South Nelson Industrial Estate, Cramlington, NE23	1,675ft <sup>2</sup> (155m <sup>2</sup> )	To let	£10,400 pa	£67	£6	£27,165	April '14
<b>Retail</b>	Pt Ground/First Floor, The Court House, Castle Bank, Morpeth, NE61 1YJ	6,393ft <sup>2</sup> (594m <sup>2</sup> )	To let	£50,000 pa	£84	£8	£34,079	July '14
<b>Retail</b>	53-55 Marygate Berwick upon Tweed TD15 1AX	1,314ft <sup>2</sup> (122m <sup>2</sup> )	To let	£35,000 pa	£287	£27	£116,148	July '14
<b>Industrial</b>	Unit 8B Tweedside Trading Estate, Tweedmouth, Berwick-Upon-Tweed, TD15	9,221ft <sup>2</sup> (856m <sup>2</sup> )	To let	£20,747 pa	£24	£2	£9,813	July '14
<b>Offices</b>	Hubbway Business Centre, Ground Floor Office, Bassington Way,	GIA 162.8m <sup>2</sup>	To let	£20,000 pa	£123	£11	£49,737	July '14

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Type of premises	Address	Size	For sale or to let	Price/Rent	Approx £m <sup>2</sup>	Approx £ft <sup>2</sup>	Approx £ per acre	Date
	Cramlington, Northumberland, NE23 8AD	(1752ft <sup>2</sup> )						
<b>Retail</b>	Chantry Place, Morpeth - SHOP and PREMISES	Shop c.700ft <sup>2</sup> (65 m <sup>2</sup> ). Store/Staff Room 156ft <sup>2</sup> (14.5m <sup>2</sup> ). Store/Office 120ft <sup>2</sup> (11m <sup>2</sup> ).	To let	£18,000 pa	£199	£18	£80,524	April '14
<b>Retail</b>	7-9 Marygate, Berwick-Upon-Tweed, TD15 1AT	TOTAL: 251.9m <sup>2</sup> (2,710ft <sup>2</sup> ).	To let	£15,000 pa	£60	£6	£24,108	April '14
<b>Retail</b>	Unit 3, 82 Marygate, Berwick upon Tweed, TD15 1BN	53.70m <sup>2</sup> (578ft <sup>2</sup> )	To let	£15,000 pa	£279	£26	£113,094	April '14
<b>Retail</b>	65-67 Marygate, Berwick-Upon-Tweed, TD15 1BA	213.77m <sup>2</sup> (2,301ft <sup>2</sup> )	To let	£15,000 pa	£70	£7	£28,409	July '14
<b>Industrial</b>	Highgate Works, 95 Main Street, Tweedmouth, Berwick-Upon-Tweed, TD15 2AW	Total GIA: 385m <sup>2</sup> (4,144ft <sup>2</sup> ). Total Site Area: 0.28 acres	To let	£15,000 pa	£39	£4	£15,774	July '14
<b>Industrial</b>	Nelson Park West, Cramlington	Warehouse/Office/Storage 379.4m <sup>2</sup> (4,083.8ft <sup>2</sup> ) (Ground floor only)	To let	£15,000 pa	£40	£4	£16,010	July '14
<b>Office</b>	Office Suite, Sanderson Arcade, Morpeth	Area 87.80m <sup>2</sup> (945ft <sup>2</sup> )	To let	£1,105 pcm	£13	£1	£5,096	April '14
<b>Retail</b>	21-21A Victoria Terrace Alnwick, NE66 1RQ	33.72m <sup>2</sup> (363ft <sup>2</sup> )	For sale	£175,000	£5,189	£482	£2,100,913	April '14
<b>Retail</b>	33 Station Road Ashington, NE63 9UZ	196.21m <sup>2</sup> (2,112ft <sup>2</sup> )	For sale & To Let	£200,000 - 2,112 sq ft - £20,000 pa	£1,019	£95	£412,679	April '14
<b>Retail</b>	Westmoreland Retail Park Forum Way Cramlington, NE23 6RT	Total space: 292.18m <sup>2</sup> (3,145ft <sup>2</sup> )	To let	£42,700 pa	£146	£14	£59,168	April '14
<b>Retail</b>	Keel Row Shopping Centre Blyth, NE24 1AH	101.36– 218.14m <sup>2</sup> (1,091-2,348ft <sup>2</sup> )	To let	£30,000 - £33,500 pa	£154	£14	£62,176	April '14
<b>Industrial</b>	Former Garage Premises - 7 Tweed Street Berwick Upon Tweed, TD15 1NG	438.87m <sup>2</sup> (4,724ft <sup>2</sup> )	To let	£2.54 sq ft - £12,000 pa	£27	£3	£11,070	April '14
<b>Retail</b>	17 Front Street Prudhoe, NE42 5HN	35.71m <sup>2</sup> (492ft <sup>2</sup> )	To let	£4,957.28 pa	£108	£10	£43,909	April '14

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Type of premises	Address	Size	For sale or to let	Price/Rent	Approx £m <sup>2</sup>	Approx £ft <sup>2</sup>	Approx £ per acre	Date
<b>Industrial</b>	Bassington Lane	194.26m <sup>2</sup> (2,091ft <sup>2</sup> )	To let	£3,297.00 pa	£20	£2	£8,184	April '14
<b>Retail</b>	16-18 Front Street Bedlington, NE22 5UB	129.69- 157.10m <sup>2</sup> (1,396-1,691ft <sup>2</sup> )	To let	£8,000 - £9,000 pa	£57	£5	£23,194	April '14
<b>Commercial</b>	9C Cowpen Industrial Estate, Blyth, NE24 5TG	260m <sup>2</sup>	To let	£9,000 pa	£35	£3	£14,014	July '14
<b>Commercial</b>	9D Cowpen Industrial Estate, Blyth, NE24 5TG	260m <sup>2</sup>	To let	£9,000 pa	£35	£3	£14,014	July '14
<b>Commercial</b>	4 Stephenson Court, Barrington Industrial Estate, Bedlington,	234m <sup>2</sup>	To let	£8250 pa	£35	£3	£14,274	July '14
<b>Commercial</b>	16C Cowpen Industrial Estate, Blyth, NE24 5TG	273m <sup>2</sup>	To let	£8,500 pa	£31	£3	£12,605	July '14
<b>Commercial</b>	16D Cowpen Industrial Estate, Blyth, NE24 5TG	273m <sup>2</sup>	To let	£8,500 pa	£31	£3	£12,605	July '14
<b>Office/Commercial</b>	1 Longridge Court, Barrington Industrial Estate, Bedlington, NE22 7DQ	186m <sup>2</sup>	To let	£7,800 pa	£42	£4	£16,978	July '14
<b>Office</b>	4 Enterprise Court, Nelson Industrial Estate, Cramlington, NE23 1LZ	82m <sup>2</sup>	To let	£7,000 pa	£85	£8	£34,561	July '14
<b>Commercial</b>	26 E Cowpen Industrial Estate, Blyth, NE24 5TG	90m <sup>2</sup>	To let	£5,500 pa	£61	£6	£24,741	July '14
<b>Office/Commercial</b>	4 Longridge, Barrington Industrial Estate, Bedlington, NE22 7DQ	93m <sup>2</sup>	To let	£4,500 pa	£48	£4	£19,590	July '14
<b>Commercial</b>	17 Jubilee Industrial Estate, Ashington, NE63 8UB	74m <sup>2</sup>	To let	£3,000 pa	£41	£4	£16,413	July '14
<b>Commercial</b>	18 Jubilee Industrial Estate, Ashington, NE63 8UB	74m <sup>2</sup>	To let	£3,000 pa	£41	£4	£16,413	July '14
<b>Commercial</b>	10 Jubilee Industrial Estate, Ashington, NE63 8UB	31m <sup>2</sup>	To let	£2,500 pa	£81	£7	£32,650	July '14
<b>Commercial</b>	4 Jubilee Industrial Estate, Ashington, NE63 8UB	28m <sup>2</sup>	To let	£1500 pa	£54	£5	£21,689	July '14
<b>Commercial</b>	5 Jubilee Industrial Estate, Ashington, NE63 8UB	29m <sup>2</sup>	To let	£1500 pa	£52	£5	£20,941	July '14
<b>Commercial</b>	9 Jubilee Industrial Estate, Ashington, NE63 8UB	28m <sup>2</sup>	To let	£1,500 pa	£54	£5	£21,689	July '14
<b>Guest House</b>	Hallbank Guest House, Hallgate, Hexham		To let	£30,000 pa (£40,000 for the business)				July '14

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Type of premises	Address	Size	For sale or to let	Price/Rent	Approx £m <sup>2</sup>	Approx £ft <sup>2</sup>	Approx £ per acre	Date
<b>Retail/Restaurant</b>	Restaurant to rent Treasure Room, 61, Bridge Street, Morpeth, NE61 1PQ		To let	£27,000 pa				July '14
<b>Office</b>	Cawledge Business Park, ALNWICK, Northumberland	172 - 345m <sup>2</sup>	To let	£1929 pcm	£6	£1	£2,264	July '14
<b>Retail</b>	Main Street, Ponteland		To let	£1334 pcm				July '14
<b>Retail</b>	Chantry Place, Morpeth		To let	£16,000 pa				July '14
<b>Office</b>	Cramlington Town Centre	86m <sup>2</sup>	To let	£3,375 pq	£39	£4	£15,888	July '14
<b>Retail</b>	Briardale Road, Blyth		To let	13000 pa				July '14
<b>Office</b>	Units 3 & 4 The Chandlery, Quayside, Berwick-Upon-Tweed, TD15 1HE	113.06m <sup>2</sup> (1217ft <sup>2</sup> )	To let	£12,200 pa	£108	£10	£43,686	July '14
<b>Commercial</b>	TYNE VALLEY, Hexham	236.90m <sup>2</sup> (2,550ft <sup>2</sup> )	To let	£12,000	£51	£5	£20,508	July '14
<b>Commercial</b>	7 Tweed Street, Tweedmouth, Berwick-Upon-Tweed	443.52m <sup>2</sup> (4,774ft <sup>2</sup> )	To let	£12,000 pa	£271	£25	£109,541	July '14
<b>Retail</b>	Station Road, Ashington - Commercial Space	191.23m <sup>2</sup>	To let	£12,000	£63		£25,406	July '14
<b>Retail</b>	108 Marygate, Berwick-Upon-Tweed, TD15 1BN	93.65m <sup>2</sup> (1,008ft <sup>2</sup> )	To let	£12,000 pa	£128	£12	£51,880	July '14
<b>Office</b>	Pt First Floor, Norham House 15 Walkergate Berwick-Upon-Tweed TD15 1DS	265.98m <sup>2</sup> (2863ft <sup>2</sup> )	To let	£11500 pa	£43	£4	£17,505	July '14
<b>Retail</b>	19 Woolmarket, Berwick Upon Tweed, TD15 1DH	92.62m <sup>2</sup> (997ft <sup>2</sup> )	To let	£11,000 pa	£119	£11	£48,081	July '14
<b>Office</b>	Office to rent - Corbridge	34.8m <sup>2</sup>	To let	£900 pcm	£278	£26	£112,704	July '14
<b>Commercial</b>	Unit 4 Marrtree Business Park, Ramparts Business Park, Berwick upon Tweed, TD15	232.72m <sup>2</sup> (2505ft <sup>2</sup> )	To let	£10,500 pa	£45	£4	£18,267	July '14
<b>Retail</b>	16, St Marys Chare, Hexham, Northumberland, NE46 1NQ	36m <sup>2</sup>	To let	£10,500 pa	£292	£27	£118,084	July '14
<b>Retail</b>	Retail Property - St Marys Chare, Hexham, Northumberland	40.37m <sup>2</sup>	To let	£10,500 pa	£260	£24	£105,301	July '14
<b>Office/Commercial</b>	Unit 11, Hubbway Business Park, Bassington Industrial Estate, Cramlington, Northumberland, NE23 8AD	92.62m <sup>2</sup> (997ft <sup>2</sup> )	To let	£11000 pa	£11	£1	£4,467	July '14
<b>Retail</b>	Front Street West, Bedlington	194.2m <sup>2</sup>	To let	£10,000 pa	£51	£5	£20,847	July '14
<b>Restaurant/Retail</b>	Lorenzos, 24 Merton Road, Ponteland	40m <sup>2</sup>	To let	£9,000 pa	£225	£21	£91,093	July '14
<b>Office</b>	Boatside Business Centre, Warden		To let	£9,000 pa				July '14
<b>Commercial</b>	Barrington Industrial Estate, Bedlington		To let	£170 pw				July '14
<b>Retail</b>	Station Road, Ashington - Retail Unit		To let	£8,500 pa				July '14
<b>Office</b>	Bondgate Within, Alnwick	123.56m <sup>2</sup> (1330ft <sup>2</sup> )	To let	£8, 500 pa	£69	£6	£27,851	July '14

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Type of premises	Address	Size	For sale or to let	Price/Rent	Approx £m <sup>2</sup>	Approx £ft <sup>2</sup>	Approx £ per acre	Date
<b>Retail</b>	Station Road, Ashington, Northumberland		To let	£8,500 pa				July '14
<b>Retail</b>	Laburnum Terrace, Ashington, Ground Floor Retail Unit	28.28m <sup>2</sup>	To let	£8,500 pa	£301	£28	£121,687	July '14
<b>Retail/Office</b>	13 Hide Hill, Berwick-Upon-Tweed, TD15 1EQ	87.24m <sup>2</sup> (939ft <sup>2</sup> )	To let	£8,000 pa	£92	£9	£37,128	July '14
<b>Retail</b>	Unit 10, Hubbway Business Centre, Bassington Industrial Estate, Cramlington	75m <sup>2</sup>	To let	£8,000 pa	£107	£10	£43,185	July '14
<b>Retail</b>	Gearbox Autoparts, 3 Broadway Circle, Blyth, Northumberland, NE24 2PG		To let	£7,500 pa				July '14
<b>Retail/Office</b>	20 Hide Hill, Berwick-Upon-Tweed, TD15 1AB	178.74m <sup>2</sup> (1924ft <sup>2</sup> )	To let	£7,000 pa	£39	£4		July '14
<b>Office</b>	Bondgate Within, ALNWICK, Northumberland	85.27m <sup>2</sup>	To let	£7,000 pa	£82	£8	£33,236	July '14
<b>Retail</b>	4 Bridge Street , Blyth , Northumberland, NE24 1BL	77.18m <sup>2</sup>	To let	£7,000 pa	£91	£8	£36,719	July '14
<b>Retail</b>	13 Castlegate, Berwick-Upon-Tweed, TD15 1JS	67m <sup>2</sup>	To let	£6500 pa	£97	£9	£39,277	July '14
<b>Commercial</b>	Units at Lionheart Enterprise Park, Alnwick, Northumberland		To let	£500 pcm				July '14
<b>Office</b>	Office in Hexham (Vine Terrace)	98.34m <sup>2</sup>	To let	£6000 pa	£61	£6	£24,702	July '14
<b>Retail</b>	The Shop , 40 Gordon Terrace , Choppington , Northumberland, NE62 5UE	57m <sup>2</sup>	To let	£5,520 pa	£97	£9	£39,207	July '14
	2 Clayport Steet, Alnwick, Northumberland		To let	£5,400pcm				July '14
	Unit 2, The Chandlery Quayside, Berwick-Upon-Tweed, TD15 1HE	47.10m <sup>2</sup> (507ft <sup>2</sup> )	To let	£100pw (*52 for PA rate = £5,200pcm)	£110	£10	£44,696	July '14
	Unit 1 The Chandlery, Quayside, Berwick-Upon-Tweed, TD15 1HE	53.88m <sup>2</sup> (580ft <sup>2</sup> )	To let	£5,100 pa	£95	£9	£38,319	July '14
	82 Beatrice Street, Ashington, NE63 9BP	5.20m <sup>2</sup> (56ft <sup>2</sup> )	To let	£4,160 pa	£800	£74	£323,729	July '14
	Heddon Library, Towne Gate, Heddon-on-the-wall, Newcastle Upon Tyne, NE15 0EJ	12.8m <sup>2</sup> (138ft <sup>2</sup> )	To let	£332 pcm	£26	£2	£10,484	July '14
	Office Suites , 9 Atley Business Park , Cramlington, NE23 1WP	22m <sup>2</sup>	To let	£325 pcm	£15	£1	£5,981	July '14
	4a, Ballast Hill, Blyth , Northumberland, NE24 2AU	107m <sup>2</sup>	To let	£320 pcm	£3	£0	£1,211	July '14
	Laburnum Terrace, Ashington, Two Rooms		To let	£300 pcm				July '14

**Table 3: Northumberland Commercial Premises for Sale and Rent**

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Type of premises	Address	Size	For sale or to let	Rent per annum	For sale price	To let per m <sup>2</sup>	To let per ft <sup>2</sup>	For sale per m <sup>2</sup>	For sale per ft <sup>2</sup>	Date
<b>Retail</b>	Beaumont Street, Hexham, NE46	32.88m <sup>2</sup>	To let	£7,020	N/A	£213.54	£19.84	N/A	N/A	April 2016
<b>Office</b>	Shawwell Business Centre, Corbridge	76.36m <sup>2</sup>	To let	£7,000	N/A	£91.67	£8.52	N/A	N/A	April 2016
<b>Office</b>	5a Esther Court, Wansbeck Business Park, Ashington	92.16m <sup>2</sup>	To let	£7,440	N/A	£80.73	£7.50	N/A	N/A	April 2016
<b>Light industrial</b>	Bowes Court, Barrington Industrial Estate, Bedlington NE22	339.00 m <sup>2</sup>	To let	£8,400	N/A	£24.78	£2.30	N/A	N/A	April 2016
<b>Office</b>	Shawwell Business Centre, Corbridge	100.08 m <sup>2</sup>	To let	£10,000	N/A	£99.92	£9.28	N/A	N/A	April 2016
<b>Industrial/Storage</b>	Unit 3 Atley Business Park, North Nelson Industrial Estate, Cramlington	280.94m <sup>2</sup>	To let	£15,000	N/A	£53.39	£4.96	N/A	N/A	April 2016
<b>Office</b>	4 Esther Court, Wansbeck Business Park, Ashington	190.17m <sup>2</sup>	To let	£15,353	N/A	£80.73	£7.50	N/A	N/A	April 2016
<b>Office</b>	1 Esther Court, Wansbeck Business Park, Ashington	224.45m <sup>2</sup>	To let	£18,120	N/A	£80.73	£7.50	N/A	N/A	April 2016
<b>Retail</b>	23/24 Market Street, Blyth	336.49m <sup>2</sup>	To let	£39,500	N/A	£117.39	£10.91	N/A	N/A	April 2016
<b>Industrial/Storage</b>	39 Colbourne Crescent, Nelson Park, Cramlington	1,276.67m <sup>2</sup>	To let	£45,003	N/A	£35.25	£3.27	N/A	N/A	April 2016
<b>Retail</b>	Tyne Mills Garage, Tyne Mills Industrial Estate, Hexham, NE46	803.24m <sup>2</sup>	To let	£60,000	N/A	£74.70	£6.94	N/A	N/A	April 2016
<b>Office</b>	Richard Stannard House, Bridge Street, Blyth NE24	5,178.42m <sup>2</sup>	To let	£390,194	N/A	£75.35	£7.00	N/A	N/A	April 2016
<b>Retail</b>	Unit 1 Albion Retail Centre, Cowpen Lane, Blyth NE24	1,264.00m <sup>2</sup>	To let	£140,000	N/A	£110.76	£10.29	N/A	N/A	April 2016

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Type of premises	Address	Size	For sale or to let	Rent per annum	For sale price	To let per m <sup>2</sup>	To let per ft <sup>2</sup>	For sale per m <sup>2</sup>	For sale per ft <sup>2</sup>	Date
Office	Shawwell Business Centre, Corbridge	65.03m <sup>2</sup>	To let	£6,500	N/A	£99.95	£9.29	N/A	N/A	April 2016
Light industrial	Atley Business Park, Cramlington NE23	85.94m <sup>2</sup>	To let	£5,910	N/A	£68.77	£6.39	N/A	N/A	April 2016
Light industrial	24 Atley Buisness Park, Cramlington	112.23m <sup>2</sup>	To let	£7,248	N/A	£64.58	£6.00	N/A	N/A	April 2016
Commercial Property	Rock, Alnwick NE66	200m <sup>2</sup>	To let	£12,000	N/A	£60.00	£5.57	N/A	N/A	April 2016
Light industrial	Unit 15, Rotary Parkway, Ashington, NE63	2,725.96m <sup>2</sup>	To let	£118,000	N/A	£43.29	£4.02	N/A	N/A	April 2016
Office	Unit 26, Apex Business Village, Annitsford, Cramlington	114.64m <sup>2</sup>	To let	£13,500	N/A	£117.76	£10.94	N/A	N/A	April 2016
Pub/Bar	The Bridge End Inn, Ovingham, NE42	355m <sup>2</sup>	For Sale	N/A	£185,000	N/A	N/A	£521.13	£48.41	April 2016
Restaurant/Cafe	27-28 Market Place, Hexham	140.45m <sup>2</sup>	For Sale	N/A	£110,000	N/A	N/A	£783.20	£72.76	April 2016
Retail	Oldgate, Morpeth, NE61	55.71m <sup>2</sup>	For Sale	N/A	£280,000	N/A	N/A	£5,026.03	£466.93	April 2016
Retail	9 Bridge Street, Rothbury, NE65	91.20m <sup>2</sup>	For Sale (Guide Price)	N/A	£190,000	N/A	N/A	£2,083.33	£193.55	April 2016
Caravan Site	Old Acton, Felton, Morpeth	-	For Sale (Guide Price)	N/A	£125,000	N/A	N/A	-	-	April 2016
Clinic/Hostel	Carlton Street, Blyth	154.99m <sup>2</sup>	For Sale	N/A	£99,950	N/A	N/A	£644.88	£59.91	April 2016
Retail	7 Bowes Street, Blyth	136m <sup>2</sup>	For Sale	N/A	£79,950	N/A	N/A	£587.87	£54.61	April 2016
Hot Food Takeaway	10 Wanley Street, Blyth	57m <sup>2</sup>	For Sale	N/A	£65,000	N/A	N/A	£1,140.35	£105.94	April 2016
Retail	32 Front Street West, Bedlington	78m <sup>2</sup>	For Sale	N/A	£35,000	N/A	N/A	£448.72	£41.69	April 2016
Hot Food	251 Hawthorn Road, Ashington	-	For Sale	N/A	£25,000	N/A	N/A	-	-	April



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Type of premises	Address	Size	For sale or to let	Rent per annum	For sale price	To let per m <sup>2</sup>	To let per ft <sup>2</sup>	For sale per m <sup>2</sup>	For sale per ft <sup>2</sup>	Date
<b>Takeaway</b>										2016
<b>Restaurant/Cafe</b>	55a-55b Front Street, Prudhoe	270m <sup>2</sup>	For Sale	N/A	£24,950	N/A	N/A	£92.41	£8.58	April 2016
<b>Retail</b>	1a Market Place, Alnwick NE66	-	For Sale	N/A	£14,950	N/A	N/A	-	-	April 2016

**Table 4: Northumberland Commercial Premises For Sale and Rent**

### Industrial

28. Around 20 industrial units were identified as being actively marketed on web sites such as Estates Gazette. Although a small sample, it was evident that there were varied rental values according to factors such as the location, size and quality of accommodation. Few relatively new industrial units were identified other than at Nelson Industrial Estate in Cramlington which attracts a premium compared to other older units. Taking off what appeared to be anomalies e.g. a very large scale industrial unit over 9,000m<sup>2</sup> at Blyth Riverside, advertised rental values per annum averaged at around £43m<sup>2</sup> (£4.00ft<sup>2</sup>)
29. Lambert Smith Hampton, commercial property consultants describes South East Northumberland as fairing well as an industrial location with road access and availability of large areas of cheap land. The majority of available industrial stock is in the Cramlington area. Rental rates in this area are identified as being in the region of £32 - £54m<sup>2</sup> (£3 - £5ft<sup>2</sup>) depending on the age and size of the unit.
30. Research from Colliers International<sup>4</sup> from 2015 on average industrial rents suggests secondary rents for older small sheds in Newcastle upon Tyne to be £45.75m<sup>2</sup> (£4.25ft<sup>2</sup>) and for large sheds 37.67m<sup>2</sup> (£3.50ft<sup>2</sup>). Average rents for new accommodation in the same locations attract a premium at 56.51m<sup>2</sup> and 48.44m<sup>2</sup> (£5.25 and £4.50ft<sup>2</sup>) respectively.
31. The Northumberland Employment Premises and Land Demand Study 2015 provides further detail specific to the County. The report reiterates the limitations to data. Regard has been given to various sources of rental and sale price data. Deals information may include details of rents/prices achieved; availability data can include asking rents/prices. In the recent fragile market conditions not only have there been limited numbers of transactions, but landlords have been reluctant to deter interest by setting asking rents too high. It is reported that landlords are prepared to agree deals at levels of rent or including incentives that they would rather keep confidential to avoid setting a precedent for future lettings or rent reviews. As a result recent rental data is scarce: asking rents are “on application” and achieved rents are “confidential”. However, the asking rent is a useful indicator of what property owners feel is reasonable to seek based on the strength of the local market. Industrial rental rates are identified as ranging from 24.01m<sup>2</sup> – 79.98m<sup>2</sup> (£2.23ft<sup>2</sup>-£7.43ft<sup>2</sup>) in the North of the County, 21.53m<sup>2</sup> – 80.73m<sup>2</sup> (£2ft<sup>2</sup>-7.50ft<sup>2</sup>) in the South East Delivery Area, 21.53m<sup>2</sup> – 81.16m<sup>2</sup> (£2ft<sup>2</sup>-£7.54ft<sup>2</sup>) in the Central

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<sup>4</sup> Colliers Industrial Rents Map

Delivery Area and lower at £16.15m<sup>2</sup> - £53.82m<sup>2</sup> (£1.50ft<sup>2</sup>-£5ft<sup>2</sup>) in the West Delivery Area.

### Retail

32. Retail rental values are more difficult to determine and are based on a more complex calculation than simply dividing a total rent by the total area. Instead a zoning method is applied with Zone A being the area closest to the window and of the greatest rental value.
33. There were no new retail premises identified as being to let or for sale in Northumberland. The units being marketed were generally small town centre schemes with part retail floor space and ancillary accommodation e.g. upper floors for storage or staff facilities. Town centre health check reports identify previous Zone A rents of up to £400m<sup>2</sup> - £499m<sup>2</sup> in Morpeth although it is not known if this level of rent has been sustained.
34. Colliers International publish research and forecasting on retail in the UK. They research 420 retail centres, including Morpeth. It reports the town experienced a drop in prime zone a retail rents between 2011 and 2012, however in its report of Autumn 2014 trends seem to suggest the drop has halted. Morpeth has new retail premises within Sanderson Arcade, which would be a good benchmark for current retail rents, however these are not publically available.
35. Colliers International report that average regional retail rents remain predominantly below 2008 levels. The north east saw a slight decrease in prime rents between May 2013 and May 2014 of -0.8%<sup>5</sup>.
36. Large and small supermarket and retail warehouse rental values are similarly rarely publically available as there are few transactions and they tend to be built by the operator rather than a developer i.e. they are owned by the end user as opposed to being rented.

### Offices

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<sup>5</sup> Colliers International Research & Forecast Report UK | GB Retail Report Autumn 2014

37. Relatively new office accommodation to let was identified in the analysis. However, whilst it existed, rents were generally not part of advertising particulars as rents and lease terms are often subject to negotiation.
38. In a report by Lambert Smith Hampton prepared for the County Council recent deals are identified for the office element of Northumberland Business Park/Apex Business Village which include GraphicMail UK taking  $60.39\text{m}^2$  at  $£115.18\text{m}^2$  ( $650\text{ft}^2$  at  $£10.77\text{ft}^2$ ). The larger office accommodation (no more than  $278.71\text{m}^2$  ( $3,000\text{ft}^2$ )) is reportedly showing rental evidence at  $£134.50\text{m}^2$  to  $£145.26\text{m}^2$  ( $£11\text{ft}^2$  to  $£14\text{ft}^2$ ). Similar levels of rents are identified at Telford Court in Morpeth ( $£134.55\text{m}^2$  ( $£12.50\text{ft}^2$ )) and  $£173.41\text{m}^2$  ( $£16.11\text{ft}^2$ )) on a 10 year lease with break at year 5. Sanderson Arcade by developer Dransfield, also in Morpeth is reportedly a well let scheme with rents around  $£156\text{m}^2$  ( $£14.50\text{ft}^2$ ) with flexible lettings.
39. Colliers research<sup>6</sup> was reviewed to understand approximate average rental values. The data does not specifically identify Northumberland settlements so instead Newcastle's out of town office rents were referred to. The research from 2014 indicates average rental values of  $£107\text{m}^2$  ( $£10\text{ft}^2$ ) for older accommodation and  $£172.22\text{m}^2$  ( $£16\text{ft}^2$ ) for new premises ( $£107.60\text{m}^2$  –  $172.16\text{m}^2$ ). Panel members expressed caution over average rental levels across the county, commenting that there was a simple location split between Cramlington that benefitted from its proximity to Tyneside and 'the rest of the county'.
40. The Northumberland Employment Premises and Land Demand Study (2015) provides further details of rental values in Northumberland. Regard has been given to various sources of rental and sale price data. Limitations to the data according to factors such as the number of transactions identified must be acknowledged. Office rental values vary significantly according to location and quality as demonstrated in the following ranges. Office rents of between  $£21.53\text{m}^2$  ( $£2\text{ft}^2$ ) and  $£102.26\text{m}^2$  ( $£9.50\text{ft}^2$ ) were identified in the north delivery area,  $£43.06\text{m}^2$  ( $£4\text{ft}^2$ ) and  $£150\text{m}^2$  ( $£14\text{ft}^2$ ) in the South East,  $£107.64\text{m}^2$  ( $£10\text{ft}^2$ ) and  $£215.29$  ( $£20\text{ft}^2$ ) in the Central Delivery Area, and  $£32.29\text{m}^2$  ( $£3\text{ft}^2$ ) –  $64.58\text{m}^2$  ( $£6\text{ft}^2$ ) in the West Delivery Area.

## **Yields**

41. Yields are used to calculate the 'return' on investment. The yield is influenced by factors such as the strength of the market, prospects for rental growth, the quality of

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<sup>6</sup> Colliers Office Rents Map 2015

the location and the terms of a lease. These all contribute to the overall security of an investment.

42. Yields are expressed as a percentage. In determining development value, there is an inverse relationship i.e. as the yield goes up, the value goes down. Higher risk investments usually have higher yields.
43. Yields have generally increased as a result of the recession, hence producing lower capital values. The investment market is somewhat cyclical and yields are likely to reduce over the plan period as the market strengthens.
44. The approximate yields identified below have been derived from a range of sources and are considered broadly appropriate at the time of preparing this report. In the most part they are derived from national commercial market analysis, but more locally based evidence such as town centre health checks and the Northumberland Employment Premises and Land Demand Study have also informed the rates.

Typology	Use Class and Definition	Approximate yield %
<b>A</b>	A1 - Large supermarket	5
<b>B</b>	A1 small supermarket	7.5
<b>C</b>	A1 - Retail warehouse	7.56
<b>D</b>	A1 mini supermarket	6.5
<b>E</b>	A1 – A5- small retail/ service	7.0
<b>F</b>	B1a – Town Centre	7.5
<b>G</b>	B1a - Out of centre	7.5
<b>H</b>	B2 – Manufacturing	8
<b>I</b>	B1c – light Industrial/distribution	8
<b>J</b>	B8 Storage and distribution	8

Table 5: Northumberland Assumed Commercial Yields

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#### Capitalised values

45. Based on the analysis of rents and yields, and informed by professional judgment and knowledge of the Northumberland commercial market, approximate capital values were estimated as follows.

Typology	Definition and Use Class	Capital value (£m <sup>2</sup> )
<b>A</b>	A1 – Large supermarket	£2,800
<b>B</b>	A1 – Small supermarket	£2,800
<b>C</b>	A1 – Retail warehouse	£1,700
<b>D</b>	A1 mini supermarket	£2,800
<b>E</b>	A1 - A5- small retail/ service	£1,200
<b>F</b>	B1a - Town Centre	£1,400

<b>G</b>	B1a - Out of centre	£1,500
<b>H</b>	B2 - Industrial / Manufacturing	£700
<b>I</b>	B1c/ - light Industrial /	£750
<b>J</b>	B8 storage and distribution	£750
<b>K</b>	C1 hotel - out of centre	£1,750
<b>L</b>	D2 – Leisure	£2,000

Table 6: Northumberland Assumed Capitalised Values (Commercial)

## Commercial Development Costs

### Build Costs

46. The BCIS Quarterly Review of Building prices is commonly used as an indication of build costs.
47. The BCIS data is expressed in £m<sup>2</sup> of the gross internal floor area and is derived from analysis of tender prices. It is broken down according to detailed development types. The figures are 'contract sums excluding external works and contingencies with preliminaries apportioned by value'.
48. The Development Viability Panel and the Home Builders Federation agreed to the use of BCIS figures. However, the discussion of build costs was in reference to house building rather than commercial development.
49. Notwithstanding the context of discussions with stakeholders, it was acknowledged that there were limitations of the data.
50. Notably the BCIS Quarterly Review build cost figures are derived from tenders. In the vast majority of cases tender prices will be negotiated downwards. As such the BCIS figures are inherently high.
51. Although there are clearly limitations to the BCIS data, and they are considered to be high, they are commonly accepted for the purposes of plan viability assessments and are recommended as an appropriate source of data in the Local Housing Delivery Group's guidance. The BCIS figures have therefore been assumed in the viability assessment.

### Additional Normal Build costs

52. In recognition that the BCIS build costs do not include contingencies or the cost of external works such as landscaping, car parking, drainage and site services, an additional allowance was made for such provision.

#### External works

53. External works will vary for commercial schemes with some requiring significantly more works than others. For example, a small town centre scheme is likely to require very limited external works compared to a new large scale out of town scheme which may require the likes of infrastructure connections. In respect of the latter the County does have sites in its strategic employment portfolio, which already have the benefit of services such as Ashwood Business Park. However, there are still likely to be costs such as landscaping.
54. The Council proposed a relatively simplistic approach which tries to broadly capture the breadth of the typologies identified. An assumption of 15% was assumed for external works across the typologies with the exception of retail and service uses and town centres offices for which no allowance has been made for external costs.

#### Contingencies

55. Contingency is an allowance for the unexpected and is expressed as a percentage of build cost. In reality, as recognised in the RICS document Financial Viability in Planning, the amount depends on *'the nature of development, the procurement method and the perceived accuracy of the information received.'*
56. In reaching a view about contingencies the Council reviewed a range of viability assessments of both specific sites and whole plans. There was evidence of a range of figures within the parameters initially suggested i.e. 2.5–5%. Taking into account the nature of future employment land supply it was determined that a mid point of 3.75% of build costs be assumed for contingency.

#### Abnormal Build costs

57. Abnormal costs could also be described as exceptional costs and as identified in RICS Guidance might include *'an unusual sewerage connection facility, high levels of site contamination and the need for extensive remedial works, flooding, site boundary and stabilisation works.'*

58. Such abnormal costs are highly site specific and are very difficult to determine without detailed knowledge of a site and in many instances site investigation work. However, unlike the supply of land for residential development, sites for employment use are more limited and therefore could be more readily identified.
59. Based on a high level analysis of land supply in the plan period, including a review of sites in the Employment Land Schedule it was considered many of the sites likely to come forward for commercial type uses are greenfield sites. The key exception is sites around the Blyth Estuary. The former industrial uses of the area indicate a potential for land contamination issues or flood risk.
60. Although there are specific sites with potentially high abnormal costs, in the most part it was considered abnormal costs would not always be expected. Notwithstanding this the Council considered a cautious approach was appropriate. It was determined 10% of build cost be assumed for abnormal costs.

#### Professional Fees

61. Professional fees will normally include the cost of planning consultants, quantity surveyors and architects. An assumed cost of 10% of build costs has been adopted for commercial developments. This reflects common practice in a number of similar viability assessments and site specific viability appraisals.

#### Sales and Marketing

62. Commercial sales and marketing costs will vary according to different development types, broad market areas and in accordance with the strength of the market.
63. On the basis of a leased development the Council has adopted an assumption of 1% promotion costs, as a percentage of annual income and 10% letting / management fees.

#### Site acquisition fees

64. Site acquisition fees are broken down as follows: 1% agent fees; 0.75% legal fees; and Standard Rate scale for Stamp Duty Land Tax. This reflects standard site acquisition fees cited in a number of similar viability appraisals and site specific



viability appraisals. It also reflects the Council's knowledge of fees incurred in respect of recent land transactions.

#### Finance costs

65. Finance costs will vary according to the type of scheme and type of developer. For the purposes of the Viability Assessment, development is assumed to be fully debt funded. This is likely to be a cautious assumption as some schemes will not be entirely debt funded. However it is appropriate for a Viability Assessment of this nature.
66. The Bank of England base rate has remained low at 0.5%. Commentary at the time of writing this report suggests interest rates will remain low. The Bank of England has cited that given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles.<sup>7</sup>
67. Based on an understanding that availability of finance for many types of commercial development remains constrained, and informed by assumptions used in a number of other viability appraisals it was determined that finance costs should be assumed at 6.5% of costs.

#### Developer Profit and overhead

68. Developers profit or return is an important component of the Viability Assessment. As stipulated in the National Planning Policy Framework for development to be viable it should '*provide competitive returns to a willing land owner and willing developer*'. National Planning Practice Guidance expands in this statement. It sets out '*This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.*' (Paragraph: 024 Reference: 10-024-20140306)
69. A range of evidence and guidance was reviewed in this regard and the Development Viability Panel was consulted.
70. Profit is closely correlated with perceived levels of risk. At a time of market uncertainty, and resulting issues in respect of access to finance, it was considered

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<sup>7</sup> Bank of England Inflation Report. May 2016

that a cautious approach to profit and overhead be adopted at the higher end of the scale i.e. 20% on gross development value.

#### Build Periods, Lead in Times and Sales Periods

71. The assumed build periods, together with a lead in time and duration for sales/lettings has been informed by professional experience and examples where available.
72. To reiterate points raised earlier in this report, there is no definitive answer that can effectively capture every scheme. The figure below broadly captures build durations. Letting and sales periods are also taken into account.

Typology	Definition and Use Class	Approximate Build duration (quarters i.e. 3 month tranches)
A	A1 - Large supermarket	4
B	A1 – small supermarket	3
C	A1 – mini supermarket	3
D	A1 - Retail warehouse	4
E	A1 – mini supermarket	2
F	A1 - A5- small retail/service	2
G	B1a - Town Centre	3
H	B1a - Out of centre	4
I	B2 – Industrial/Manufacturing	3
J	B1c/B8 light Industrial/distribution	4
K	C1 hotel - out of centre	5
L	D2 Leisure	5

**Table 7: Northumberland Assumed Build Duration (Commercial)**

## **CONSULTATION**

73. Commercial assumptions and inputs were not subject of discussion at Development Viability Panel meetings. As referred to previously there were few stakeholders actively involved in commercial development. There were however discussions which focussed on residential assumptions but could be considered to be relevant to commercial assumptions.

## **REVISIONS AND REFINEMENT**

74. Identifying commercial assumptions and inputs has been an iterative process. As new evidence has emerged including the Employment Land and Premises Demand Study, this has been fed into the process.
75. Assumptions have also been revisited in view of the most up to date information such as in respect of the latest data on commercial market conditions.

## **F APPRAISAL OF EXISTING SAVED PLANNING POLICIES**

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### **INTRODUCTION**

1. The National Planning Policy Framework identifies the need to assess the cumulative impacts on development of all existing and proposed local standards, supplementary planning documents and policies that support the development plan when added to nationally required standards.
2. At an early stage in the Viability Assessment process a high level review of the saved policies in the Northumberland Consolidated Planning Policy Framework was undertaken.
3. Many of the saved policies will be replaced by the Northumberland Local Plan: Core Strategy, and in time other Development Plan Documents. However, there will be policies which will continue to be saved and will be used, at least in part, to determine planning applications.
4. The following identifies the current documents and planning policies which are likely to directly or indirectly affect development value or cost.
5. It should be acknowledged that the assessment was a broadbrush exercise at a time when it had not yet been established which policies would be replaced by the Core Strategy or had become outdated or defunct as a result of other factors such as changes to national policy. This will be reviewed prior to submission of the Core Strategy for Examination.

Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b><i>Alnwick District Wide Local Plan (Adopted 1997) - Policies not superseded by the adoption of the CS October 2007</i></b>				
<b>RE2</b>	Protection of the Coquet Island SPA	Mitigation	Covered in existing s106 assumption	No
<b>RE3</b>	Protection of SAC's	Mitigation	Covered in existing s106 assumption	No
<b>RE5</b>	Protection of SSSI's	Mitigation	Covered in existing s106 assumption	No
<b>RE6</b>	Protection of Sites for Nature Conservation Importance	Mitigation	Covered in existing s106 assumption	No
<b>RE7</b>	Protection of Nature Reserves	Mitigation	Covered in existing s106 assumption	No
<b>RE17</b>	Development in the presence of Areas of High Landscape Value, Registered Parks and Gardens, or the Fringe of the Northumberland National Park	Increase Design standards	High quality design and landscaping required	No
<b>RE27</b>	Development on the urban fringe - Enhance the environment and facilitate improved recreational access	Change of design	Amendment of Design/Good Planning - No additional cost	No
<b>BE2</b>	Regional and Local Archaeological Significance	Initial survey where appropriate and Extra Works dependent on survey works	Included in professional fees calc and ground preparation costs	No
<b>BE7</b>	Building Materials - incorporate local design features and building materials to fit with the locality	Increase build cost	Covered in existing assumptions	No
<b>BE8</b>	Design in new residential developments and extensions	Design Cost	Covered in existing assumptions	No
<b>BE9</b>	Public Art	s106/Developer Cost	covered in existing s106 assumption	No
<b>BE12</b>	Areas of Open Space/Landscape	Design Cost	Amendment of Design/Good Planning	No
<b>BE14</b>	Designing out Crime	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>CD18</b>	Children's Play Space	s106/Developer Cost	Covered in existing s106 assumption	National Playing Fields Association Standards

Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b><i>Berwick upon Tweed Borough Local Plan (Adopted April 1999) - Saved Policies 2007</i></b>				
<b>F10</b>	Protected Species	Mitigation & Protection Costs	Covered in existing s106 assumption	No
<b>F30</b>	Planning Obligations	s106 - appropriate infrastructure, or other consequential educational, social, recreational, sporting or community facilities and nature conservation benefits commensurate with the scale of the development	Covered in existing s106 assumption	No
<b>S6</b>	Affordable Housing	AH provision	Covered in existing s106 assumption	Threshold for AH set in policy, (1.5 or more hectares or a development of 40 or more dwellings in the town of Berwick-upon-Tweed including Tweedmouth, Spittal and East Ord; and 1 or more hectares or a development of 25 or more dwellings in other settlements listed in Policy S3). There is a potential cost if AH quantum above CS requirement is asked for.
<b>R1</b>	National Playing Field Association's 6 Acre Standard	s106/Additional Cost to Developer	Covered in existing s106 assumption	Yes - NPFA 6 Acre Standard
<b>M12</b>	Cycle routes and new developments - In developments of more than four dwellings, the layout to take account of the requirements for safe and convenient cycling.	Design Cost	Amendment of Design/Good Planning - No additional cost	No

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>M13</b>	Cycle Parking Facilities	Design Cost		Provision for the secure internal storage of cycles at ground floor level equivalent to one cycle per dwelling, either within stairwells or in separate purpose-built lockable accommodation within related parking areas, will be required except where ground floor space is limited to the extent that such provision cannot reasonably be made.
<b>M14</b>	Vehicle Parking	Design Cost	Amendment of Design/Good Planning - No additional cost	Vehicle Parking Requirements - Appendices A & B
<b>M15</b>	Traffic Calming on new developments	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>M20</b>	Road and Footpath Improvements - Seahouses	s106/Developer Cost	Possible additional cost?	No
<b><i>Blyth Valley District Local Plan (Adopted 1999)</i></b>				
<b>E21</b>	Percent for Art	s106/Developer Cost	Covered in existing s106 assumption	No
<b>H21</b>	Design and Layout Principles for New Housing Areas	Design Cost	Amendment of Design/Good Planning	No
<b>C10</b>	Educational Facilities	s106, land and Capital Provision	Covered in existing s106 assumption	No
<b>C22</b>	Emergency Services	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>M8</b>	Car Parking	Design Cost	Amendment of Design/Good Planning - No additional cost	Appendix XVII
<b>WP3</b>	Bebside: Land South of Mansell Terrace	Additional Cost to Developer	Screen Planting - Normal Design Cost	No
<b>WP5</b>	South Cramlington	Additional Cost to Developer	Structural Planting - Normal Design Cost	No
<b>WP7</b>	Complex at Avenue Road, Seaton Delaval	Additional Cost to Developer	Screen Planting - Normal Design Cost	No
<b>WP8</b>	Double Row	Additional Cost to Developer	Elimination of On street parking - Normal Design Cost	No

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>CC2</b>	Northern Expansion Site	s106	Cramlington Specific - Road Improvements, Footpaths and Cyclepaths and extensions to Central Park (Possible additional cost)	See Policy Details
<b>NE2</b>	Special Design Housing Sites	Cost implication due to special design requirements	NE Cramlington Specific (Possible Additional Cost)	No
<b>NE6</b>	Public Open Space/Playing Space	s106/land take	NE Cramlington Specific - Covered in existing s106 assumption	See Policy Details
<b>SW1</b>	Energy Efficient Housing	Design Implications	SW Sector Specific - Good Planning - No additional cost likely	See Policy Details
<b>SW2</b>	Housing Development	s106	SW Sector Specific - Site Specific Highway Requirements on SW Sector	See Policy Details
<b>SW4</b>	Central Community Facilities	Provision of Services	SW Sector Specific - Land Safeguarding for Community Infrastructure	See Policy Details
<b>SW5</b>	Landscape Structure	Provision of landscaping	SW Sector Specific - SUDS, Landscaping and Open Space - Covered through design costs	See Policy Details
<b>SW6</b>	Playing Space	Provision of Infrastructure	SW Sector Specific - Covered in existing s106 assumption	See Policy Details
<b>SB6</b>	Children's Equipped Playing Space	s106/Developer Cost	South Beach Specific - Covered in existing s106 assumption	See Policy Details
<b><i>Castle Morpeth District Local Plan (Adopted Jan 2003) - Saved Policies 2007</i></b>				
<b>C9</b>	SINCs, LNR and RIGGS	Mitigation/Enhancement Costs	Covered in existing s106 assumptions	No
<b>C12</b>	Wildlife Corridors	Mitigation/Enhancement Costs	Covered in existing s106 assumptions	No
<b>C13</b>	Wildlife Corridors	Mitigation/Enhancement Costs	Covered in existing s106 assumptions	No
<b>C15</b>	Trees	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>C26</b>	Additional Conservation Areas	Construction Cost	Additional Cost in Design Terms of New Conservation Areas	No
<b>C29</b>	Design in Conservation Areas	Construction Cost	Standard Conservation Policy - No additional cost	No



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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>C36</b>	Designing out Crime	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>H6</b>	Special Executive Housing	Potential Design Cost	Design Cost - Value uplift should cover additional cost	No
<b>H7</b>	Tranwell Woods Housing	Design Cost	Design Cost - Value uplift should cover additional cost	No
<b>H8</b>	Affordable Housing	AH provision on 2 sites	Potential additional policy cost if AH contribution is higher than that asked for in the CS	No
<b>H9</b>	Rural Affordable Housing	Exceptions site (100% AH)	Wholly Affordable Schemes - Need to be tested as such	No
<b>H15</b>	New Housing Development Design	Design Cost	Covered in existing assumptions	No - Policy Gives General Detail
<b>R4</b>	Childrens Play	s106/Developer Cost	s106/Developer Cost or Design Cost	PLANNING PERMISSION FOR NEW RESIDENTIAL DEVELOPMENT OVER 1.0 HECTARE (OR SMALLER AREAS FORMING PART OF A LARGER DEVELOPMENT TOTALLING OVER 1.0 HECTARE) WILL ONLY BE GRANTED IF PROVISION IS MADE FOR CHILDRENS' PLAY AREAS ON THE BASIS OF 500 SQUARE METRES FOR EVERY 1.0 HECTARES OF LAND TO BE DEVELOPED. FOR DEVELOPMENTS TOTALLING UNDER 1.0 HECTARES IT MAY BE MORE APPROPRIATE FOR DEVELOPERS TO MAKE A FINANCIAL CONTRIBUTION TOWARDS THE PROVISION OF PLAY AREAS.
<b>R13</b>	Culture and the Arts	s106/Developer Cost	Covered in existing s106 assumption	No

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b><i>Tyndale District Local Plan (Adopted April 2000) - Saved Policies buy not superseded by the CS 2007</i></b>		s106		
<b>GD2</b>	General Development	Design Cost	Covered in existing assumptions	No
<b>GD3</b>	General Development - Safe Access	Design Cost	Covered in existing assumptions	No
<b>GD6</b>	General Development - Parking	Design Cost	Covered in existing assumptions	Column A - Appendix 1
<b>GD7</b>	General Development - Parking	Design Cost	Covered in existing assumptions	Column B - Appendix 1
<b>GD9</b>	General Development - Disabled Parking	Design Cost	Covered in existing assumptions	Appendix 2
<b>NE10</b>	Prudhoe Hospital	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>NE19</b>	Protection of Internationally Important Nature Conservation Sites	s106	Covered in s106 assumptions	No
<b>NE20</b>	Protection of Sites of Scientific Interest	s106	Covered in s106 assumptions	No
<b>NE21</b>	Protection of Sites of Nature Conservation Importance	s106	Covered in s106 assumptions	No
<b>NE22</b>	Protection of Nature Reserves	Mitigation	Covered in s106 assumptions	No
<b>NE25</b>	Protection of Wildlife Corridors	Mitigation	Covered in s106 assumptions	No
<b>NE26</b>	Protection of habitats of special importance to wildlife	Mitigation	Covered in s106 assumptions	No
<b>NE27</b>	Protection of Protected Species	s106/Mitigation	Covered in s106 assumptions	No
<b>BE29</b>	Development and Preservation	s106/Developer Cost	Covered in s106 assumptions	No
<b>H15</b>	Design Policy - AONB	Design Cost	Covered in existing assumptions	No
<b>H16</b>	Community Facilities and Infrastructure Requirements Associated with Housing Development - Small areas of Open Space, Social, Educational, Recreational or Sporting Facilities, Highway Works, Public Transport Funding, children's play space or landscaping	s106/Developer Cost	Covered in s106 assumptions	No - Policy Gives Specific Detail on Schemes
<b>H26</b>	Accessible Housing	Increased Standards	Council's Accessibility Guidelines contained in Appendix 9	Appendix 9
<b>H27</b>	Mobility Housing	Increased Standards	Council's Mobility Guidelines contained in Appendix 10	Appendix 10

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>H32</b>	Design Policy	Design Cost	Fairly Standard - will be included within BCIS cost and Good Planning	No - Policy gives general detail
<b>LR11</b>	Outdoor Sports Facilities for New Residential Development	s106, land and Capital Provision	Covered in s106 and design assumptions	Policy Detail - For every 1 ha of land developed or redeveloped for residential purposes at least 1,000 sq.m. of land should be made directly available either on, or off site for sport or recreational uses as part of the development (Where below 1 ha a proportion of this should be applied).
<b>LR15</b>	Play Areas in new residential developments (standards and design criteria)	s106, land and Capital Provision	Covered in s106 and design assumptions	Policy Detail - For every hectare of land developed or redeveloped for family housing purposes, at least 400sq.m. should be made available for children's play space (where below threshold a proportion should be applied). LAPs, LEAPs & NEAPs
<b>TP5</b>	impaired mobility and traffic management schemes in developments	Design Cost	Likely to be covered in standard design cost	No
<b>TP15</b>	Traffic Calming on new developments (4 dwellings or more)	Design Cost	Likely to be covered in standard design cost	No
<b>CS15</b>	Routing of Services	Design Cost - Services to be routed underground	Likely to be covered in standard design cost	No
<b><i>Wansbeck District Local Plan (Adopted July 2007) - Saved Policies until 2010</i></b>				No
<b>GP10</b>	Sites of national importance for nature conservation	s106's and mitigation	Covered in existing s106 assumption	No
<b>GP11</b>	Sites of local or regional nature conservation significance	s106's and mitigation	Covered in existing s106 assumption	No

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>GP13</b>	Biodiversity and Wildlife Networks	s106 and enhancement works	Covered in existing s106 assumption	No
<b>GP31</b>	High Quality Design	Design Cost	Likely to be covered in standard design cost	No
<b>GP32</b>	Landscaping and the Public Realm	Design Cost	Likely to be covered in standard design cost/Good Planning	No
<b>GP33</b>	Public Art	s106/Developer Cost	Covered in existing s106 assumption	No
<b>GP34</b>	Resource Conservation and Integrated Renewable Energy	Design Cost - Water Conservation and Integrated Renewables (10% on development of 10 units or more, or 1000m2 floorspace for non-resi schemes)	Possible additional cost	Possible Detail - Water Conservation and Integrated Renewables (10% on development of 10 units or more, or 1000m2 floorspace for non-resi schemes)
<b>GP35</b>	Designing out Crime	Design Cost	Covered in existing assumption	No
<b>H5</b>	The design and density of new housing developments	Design Cost	Covered in existing assumption	No - Policy provides general detail
<b>H6</b>	Density	Design Cost - Assumption of 30dph	Covered in existing viability assumption	No
<b>H7</b>	Affordable Housing	AH provision (30% on sites of 15 units or 0.5ha)	Covered in existing assumption	No
<b>T2</b>	Provision for Buses	s106/Developer Cost	Potential additional contribution	No
<b>T3</b>	Provision for Cyclists	Design Cost	Amendment to Design/Good Planning - no additional cost	No
<b>T4</b>	Provision for Walking	Design Cost	Developments to allow good quality pedestrian movements - Likely to be covered under good planning	No
<b>T5</b>	Access for people with reduced mobility	Design Cost	Developments to allow people with reduced mobility to enable access	No
<b>T6</b>	Traffic Implications of New Developments	Design Cost, Potentially s106's Transport Assessment, Travel Plans etc	Amendment to Design/Good Planning current s106 assumptions - no additional cost	No
<b>T7</b>	Parking Provision in new developments	Design Cost	Covered in existing assumption	Appendix T3 (County Wide Standard)

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>REC7</b>	Provision by developers (Sports Facilities)	s106/Developer Cost	Covered in existing s106 assumption	See SPD
<b>REC8</b>	Children's Play Space	s106/Developer Cost	Covered in existing s106 assumption	See SPD
<b>CF6</b>	Water Supply and Drainage (SUDs)	Design Cost	Covered in existing Design Standards	No
<b>CF7</b>	Planning Conditions and Obligations	s106	Covered in existing s106 assumption	No
<b>CF8</b>	Land at Alexandra Road, Ashington - Development will be permitted on the site provided that it will be of benefit to community recreation provision for the local residents.	s106/Developer Cost	Likely to be covered under existing assumptions	No
<b><i>Alnwick District LDF Core Strategy DPD (Adopted October 2007)</i></b>				
<b>S5</b>	Density - 30dph	Design Cost	Covered in existing assumptions	30dph
<b>S6</b>	Provision of Affordable Housing	s106/Developer Cost	If a figure greater than that envisaged in the CS is required, then an additional policy cost will need to be included.	AH provision (35% on sites of 10 units or 0.33ha in Alnwick or Amble, and 35% on sites of 3 units or more or 0.1ha or more elsewhere)
<b>S11</b>	Accessibility and impact on travel	Design Cost	Amendment of Design/Good Planning - No additional cost	No - Policy provides general detail
<b>S12</b>	Protecting and enhancing biodiversity and geodiversity	s106/Developer Cost	Covered in existing s106 assumption	None
<b>S13</b>	Landscape Character	Design Cost	Amendment of Design/Good Planning - No additional cost	No - Policy provides general detail
<b>S16</b>	General Design Principles	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>S18</b>	Provision of Social and Community Facilities	s106/Developer Cost	Covered in existing s106 assumption	See SPD
<b>S20</b>	Sport & Recreation	s106/Developer Cost	Covered in existing s106 assumption	See SPD

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>S22</b>	Renewable Energy	Design Cost	Possible additional cost	Renewable Energy Provision - New development of 10 or more dwellings or new buildings of more than 1000sqm will be required to source a minimum of 20% of their energy requirement from onsite renewable energy installations. Non-Resi BREEAM 'excellent' or 'very good' classification.
<b>S23</b>	Planning Obligations	s106	General s106 policy - Covered in existing s106 assumption	No
<b><i>Tynedale LDF Core Strategy (Adopted October 2007)</i></b>				
<b>GD6</b>	Planning Obligations	s106/Developer Cost	General s106 policy - Covered in existing s106 assumption	No
<b>H5</b>	Density	Design Cost	Covered under good planning and design	30dph
<b>H8</b>	Affordable Housing	AH contribution higher than identified in CS	Covered in existing assumptions	30-50% on 15 or more dwellings or 0.5ha or more in Hexham, Prudhoe and Haltwhistle 5 or more dwellings or 0.2ha or more elsewhere.
<b>EN3</b>	Household Renewables -requirement for new development to have 10% less than that required by Building Regulations	Increase design standards (reduced emissions)	Possible additional cost	Yes - emissions 10% less than that required by Building Regulations
<b>BE1</b>	Built Environment Policy	Increased Design Standards	Amendment of Design/Good Planning - No additional cost	Built to BREEAM Very Good Standard or Equivalent within Code for Sustainable Homes
<b><i>Blyth Valley Borough Council LDF Core Strategy</i></b>				
<b>H2</b>	Making the Best and Most Efficient Use of Land (Density 30dph)	Design Cost	Amendment of Design/Good Planning - No additional cost	30dph
<b>A2</b>	Pedestrian/Cycle Routes	Design Cost	Amendment of Design/Good Planning - No additional cost	No

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Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>ENV2</b>	Historic and Built Environment	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b><i>Blyth Valley Borough Council LDF Development Control DPD (Adopted Sept 2007)</i></b>				
<b>DC1</b>	General Development - s106 requirement - Design, Landscaping, % for Art, s106, Community Facilities	s106/Developer Cost	Covered in existing s106 assumption	No - Policy provides general detail
<b>DC2</b>	Planning Obligations	s106/Developer Cost	Covered in existing s106 assumption (AH, Off-Site Infrastructure, Highway, Recreation, Community Infrastructure, Heritage, Nature conservation)	No
<b>DC11</b>	Planning for Sustainable Travel	Improved Design, Transport Assessments and Travel Plans	Amendment of Design/Good Planning - No additional cost	No - Policy provides general detail
<b>DC12</b>	Provision for Community Facilities	s106/Developer Cost	Covered in existing s106 assumption	No
<b>DC13</b>	Open Space Contributions	s106's	Covered in existing s106 assumption	Standards Set out in Appendix A of BVDC's PPG17 assessment
<b>DC14</b>	Site of National Importance for Nature Conservation	s106's	Covered in existing s106 assumption	No
<b>DC15</b>	Site of Nature Conservation Importance and Local Nature Reserves	s106's	Covered in existing s106 assumption	No
<b>DC16</b>	Biodiversity	Mitigation/Enhancement Costs	Covered in existing s106 assumption	No - Policy provides general detail
<b>DC17</b>	Landscape: General Protection and Restoration	Design Cost	Amendment of Design/Good Planning - No additional cost	No
<b>DC23</b>	Conservation Areas	Design Cost	Standard Conservation Policy - No additional cost	No
<b>DC27</b>	Design of New Developments (High Standard of Design & D&A Statements)	Design & Survey Cost	Covered under good planning and design	No - Policy provides general detail

Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>DC30</b>	Integrated Renewable Energy	10% Renewable Energy on Schemes	Possible additional cost	Major developments, including housing developments over 20 dwellings and other developments over 1000 square metres (gross), will include measures to produce 10% of total predicted energy requirements by renewable energy sources.
SPD Name	Description	Likely Cost	Covered under assumptions or additional cost?	Standards
<b>Alnwick Landscape Character SPD Adopted May 2010</b>		Design Cost	Amendment of Design/Good Planning - No additional cost	See SPD
<b>Wansbeck Sport &amp; Play SPD</b>		s106 Cost (Outdoor Sport Initial Provision (£293), Maintenance (£165)), (Indoor Sport Initial Provision (£362))	Covered in existing s106 assumption	
<b>Blyth Urban Design Guide and Public Realm Strategy</b>		Design Cost	Amendment of Design/Good Planning - No additional cost	See SPD
<b>Blyth Commissioners Quay Development Brief</b>		Design Costs, Survey Costs, s106, AH cost	Amendment of Design/Good Planning - No additional cost	See SPD
<b>Blyth Dun Cow Quay Development Brief</b>		Design Costs, Survey Costs, s106, AH cost	Amendment of Design/Good Planning - No additional cost	See SPD



Policy Number	Description	Likely source of cost	Additional Cost or Covered in Existing Assumptions	Specific Standard Required?
<b>Blyth Bates Colliery Strategic Development Guide</b>		Improved Design (e.g. Code Level 6), Primary School and Community Hub, S106, AH	Amendment of Design/Good Planning - No additional cost	See SPD
<b>Tynedale New Housing: Planning Obligations for Sport and Play Facilities</b>		s106 Contributions	Covered in existing s106 assumption	See SPD
<b>Wansbeck Design Guide</b>		Design Cost	Amendment of Design/Good Planning - No additional cost	See SPD
<b>Wansbeck Residential Development Design Guide</b>		Design Cost	Amendment of Design/Good Planning - No additional cost	See SPD
<b>Wansbeck Residential Extension Design Guide</b>		Design Cost	N/A	N/A

Table 1: Potential Policy Costs

## **G DETERMINING LAND VALUES**

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### **INTRODUCTION**

- 1 'Central to the consideration of viability is the assessment of land or site value' (Planning Practice Guidance Paragraph: 014 Reference ID: 10-014-20140306). Importantly, as set out in the National Planning Policy Framework, to ensure viability, the costs of any requirements likely to be applied to development, should when taking account of the normal cost of development, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.
- 2 Planning Practice Guidance acknowledges that there are various ways in which to assess land or site values will vary. These will depend on the purpose of the assessment.
- 3 The approach to assessing land values in this Viability Assessment is described below.

### **THE EVIDENCE**

- 4 The Council retrieved and appraised a range of evidence relating to land values including market evidence of land transactions, land marketing particulars, site specific viability appraisals and Council land and property sales.
- 5 It was recognised that there were certain limitations to the available evidence and also that professional judgement needed to be applied. The DVS was appointed to critically review the research and approach taken by the Council and to help determine appropriate evidence based land values, and specifically to establish 'Threshold Land Values' (TLV) to be applied in development appraisals that will underpin the Viability Assessment. The conclusion of the DVS support is presented in the separate report 'Analysis of Northumberland Threshold Land Values' (September 2015).
- 6 Threshold Land Value can be defined as the value at which a landowner would be typically willing to sell their site. A value lower than this 'threshold' will mean landowner's typical expectations are not met. They will not sell their land and development will not come forward.
- 7 The DVS used a range of evidence in their analysis including:

- TLVs as agreed with developers / house builders as part of negotiations over individual viability appraisals.
- TLVs submitted by developers / house builders in their own viability appraisals.
- TLVs determined as part of a sample of planning appeal decisions.
- TLVs assessed for the purposes of area wide studies.
- Market transactions / land sales.

## GUIDANCE

- 8 The Harman Guidance advocates a particular approach to identifying Threshold Land Values. It recommends that TLV should be based on a premium over 'Current Use Values' (CUV), and credible 'Alternative Use Values' (AUV), with some exceptions.
- 9 Current Use Value is the value of land in its current use before planning consent is granted. Alternative Use Value is the value or values associated with any other potential realistic use for the site. AUV are relevant where there is competition for land among a range of alternative uses. For example, in a city centre there is more likely to be competition between uses such as offices, retail, hotels and residential. In Northumberland such competition between uses is a far less significant issue.
- 10 One of the exceptions referred to in the Harman Guidance relates to "non-urban" and "greenfield" sites. The Harman Guidance states: *'It is widely recognised that this approach [i.e. a percentage increase over CUV] can be less straight forward for non-urban sites or urban extensions, where land owners are rarely forced or distressed sellers...This is particularly the case in relation to large greenfield sites...Accordingly, the uplift to current use value sought by the landowners will invariably be significantly higher than in an urban context and requires very careful consideration'* (p.30).
- 11 This does not mean that an assessment of the CUV has no part to play in the process of assessing greenfield sites. A typical landowner will still want to know what the value of their site is without planning permission, and then judge by how much, if at all, the CUV increases when planning permission is granted. The DVS have provided an opinion that urban brownfield sites would normally require a premium uplift of circa 25 – 50% of the CUV to be sufficient to incentivise a landowner to sell. In such circumstances, if the CUV is £100,000 per acre, applying a 50% uplift would mean a TLV of £150,000 per acre, which is considered sufficiently attractive to a landowner to incentivise them to sell the land. For a greenfield site, if the CUV is only £5,000 per acre then a 50% uplift (i.e. a TLV of £7,500 per acre) would clearly not incentivise a

landowner to release the land for development. In reality, the 'uplift' would need to be more like 15 – 25 times (or more) the CUV.

- 12 In terms of how to evidence the approach to greenfield sites the Harman Guidance advises: *'...local sources should be used to provide a view on market values (the 'going rate'), as a means of giving a further sense check on the outcome of the current use plus premium calculation'*. Furthermore: *'...for sites of this nature [i.e. greenfield], it will be necessary to make greater use of benchmarks, taking into account of local partner views on market data and information on typical minimum price provisions used within developer / site promoter agreements for sites of this nature'*.
- 13 This therefore seems to advocate using evidence of TLVs identified as part of the viability process, as well as using market transactions as a general 'sense check'. However, in the case of the latter there are limitations of assessing land sales.
- 14 The RICS Guidance favours a different approach to that advocated in the Harman Guidance. It advocates using market values stating that: *'Site value should equate to the market value subject to the following assumption: that the value has regard to the development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.'* (Para 2.2.3, Box 7)
- 15 This refers to the site value as usually being assessed by means of a residual development appraisal. However, the suggestion seems to be that planning policies should be fixed and land value subject to change (which contradicts the view of the landowner having a minimum land value below which they would sell). The RICS Guidance also advises that: *'It follows, for example, that the land value is flexible and not a fixed figure to the extent that Site Value has to be determined as part of the viability assessment.'* (Para 2.1.2)
- 16 This appears to support the view that it is the Council's policy which drives the land value, not the other way round. However, the RICS Guidance does acknowledge that the flexibility in land value cannot result in the value going below the CUV, stating: *'The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based on set percentages.'* (Para 3.4.4)
- 17 This seems to support the view of setting a TLV for development appraisals which is linked to the CUV. However, no guidance is given as to how to determine the link between the CUV and the TLV. Furthermore, in particular no guidance is given to assessing what might be a reasonable uplift in value for greenfield land where the

CUV may only be £5,000 - £10,000 per acre. Clearly a TLV only slightly above the CUV would not represent a sufficient incentive for a landowner to sell for development.

- 18 Whilst there are differences in the available Guidance, in summary, a TLV can be regarded as being effectively the typical price that an typical developer / house builder would be willing to pay for a site, being at a level which would incentivise an average landowner to release the site for development. A TLV does not therefore seek to reflect excessive demands from unreasonable parties, but instead looks to reflect a reasonable price for all parties concerned.
- 19 The valuation process to identify this 'reasonable' price involves a judgement being made to establish a value for a site if the respective costs of applying all the Council's planning policies were fully reflected. This is then viewed alongside the price at which a reasonable, hypothetical, commercially-minded landowner would dispose of the land having regard to the site's CUV or any AUV, should one be available.
- 20 Settling on this 'reasonable' land value in an appraisal is not therefore straightforward and the guidance is somewhat contradictory and can be interpreted in different ways. Landowners naturally want as a high a price as they can achieve and some of them are not prepared to recognise how the impact of the cost of planning obligations, planning conditions and abnormal costs drives down net land values materially. To complicate matters the approach to assessing an appropriate TLV for greenfield sites is also slightly different to brownfield land, because the 'premium uplift' on a greenfield site should be significantly higher than that of brownfield land.

### **Determining Land Values in Northumberland**

- 21 In its interim Viability Assessment report dated December 2014, the Council sought to follow the Harman Guidance and adopt an approach of identifying a premium over existing use value and credible alternative use value.
- 22 To identify existing use values in Northumberland, the typical existing uses of sites that come forward for development had to first be considered. This had already been captured in analysing the likely future supply of land and completions which informed the development typologies for testing.
- 23 Land in existing use for agriculture was identified as making up a significant proportion of future housing land in Northumberland.

- 24 A desk based analysis using various web resources helped to identify agricultural land for sale. Making general judgements about the broad value of the residential components of the land for sale, it was suggested that the agricultural land values marketed at the time of the analysis broadly ranged from around £8,000 per hectare to £16,000 per hectare.
- 25 The Knight Frank English Farmland Index was referred to as a further source of available evidence. The Index tracks the average price of bare commercial agricultural land i.e. without residential properties or buildings, in England. The Quarter 2 2014 report highlighted average farmland values of around £7,517 per acre or £18,566 per hectare.
- 26 In light of the available information on agricultural land for sale, professional views were also sought. It was determined that it was appropriate to use a cautious approach which reflected the apparent current strength of the market and assume the average agricultural values in Northumberland be rounded up to £8,000 per acre or around £20,000 per hectare.
- 27 A desk based analysis using various web resources also helped to identify appropriate industrial land values. Applying professional judgement and taking account of industry research publications data collected was translated into approximate value of the land per acre and per hectare. Both prime and secondary rents in the North East have reportedly remained stable, following two years of increases<sup>1</sup> and some areas have regained pre-recession rates. Values of around £105,200 per acre or £260,000 per hectare were provisionally identified.
- 28 Determining the premium over existing and credible alternative use values was considered to be more complex.
- 29 A notional premium of 10% on top of existing use value was first considered as a potential level of uplift. This was supported by a number of appeal decisions and viability assessments done elsewhere.
- 30 To check if this level of premium was relevant in a Northumberland context, a limited number of market values, i.e. the going rate for land were explored derived from:
- Market evidence of transactions
  - Site specific viability appraisals
  - Council land and property sales

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<sup>1</sup> Lambert Smith Hampton – Industrial and Logistics Market 2013

- 31 Land for sale was identified based on what was being marketed through various web sites and local agents, with the benefit of planning consent. The findings unfortunately only related to small scale sites. This is not considered unusual as many land sales will not be subject to open web based marketing and therefore are not easy to identify. The sites also predominantly related to particularly high value schemes, considered to be significantly above the market norm. National Planning Practise Guidance states that *'Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.'* (Paragraph: 014 ID: 10-014-20140306)
- 32 The advertised rates also have to be treated with caution as the price advertised may not be the price achieved.
- 33 It was recognised that the difficulty with using price paid data is that full terms of the sale are rarely known. For example, whilst it is possible to identify whether a transaction is post or pre planning consent, it is far more difficult to distinguish what are headline values associated with fully serviced sites, as opposed to net values.
- 34 When negotiating land deals, various strategies may be adopted to get the best deal and mitigate levels of risk. This could include negotiating 'option agreements' or complete a deal 'subject to planning'. Option agreements take many different forms but an example would be that a developer acquires the right to buy land after planning permission has been granted at a discount to open market value.
- 35 Another key consideration is how strong and competitive the land market is at the time of the transaction. For example, land purchased around the time of the highest house values would be likely to achieve relatively high values. Certain areas where there is strong demand will also command relatively high values.
- 36 These issues were consistent with the suggested limitations of using market values outlined by the Harman Guidance. Mindful of the limitations, a sample of land transactions was identified based on information taken from the Land Registry. The significant variation in figures confirmed what the Council had been advised. Without the details of deals, it was difficult to identify a going 'market rate'.
- 37 Professional judgement and knowledge of the individual sites was applied to further consider which of the values were likely to be most reliable and the probable basis of the deal (e.g. taking into account when planning consent was granted and any key site constraints or issues).

- 38 The Council tested a preliminary threshold land value of £280,000 per hectare and £500,000 per hectare across residential typologies. This was considered to represent a significant premium above existing and alternative use values. It is also significantly higher than a number of values at which land has been transacted in recent years in the County. On this basis it was considered the value represented a competitive return for a landowner i.e. it is a price which a reasonable land owner would be willing to sell their land for the development and will provide a clear incentive for the land owner to sell in comparison with the other options available.
- 39 In view of the complexities and conflicting advice regarding calculation of Threshold Land Values, the DVS was appointed to undertake further analysis and advise on appropriate evidence based Threshold Land Values to support the Viability Assessment. The full approach taken by the DVS is set out in a separate report 'Analysis of Northumberland Threshold Land Values' (September 2015).
- 40 The DVS's approach to TLV looked to a variety of evidence sources including market transactions / land sales. The DVS advises that assessing actual land sales for the purposes of identifying a TLV is not straight forward: the price someone is willing to pay for a piece of development land, or accept for a piece of development land is subject to many factors including:
- The type of development that could be brought forward.
  - The gross to net ratio (it may be that a large section of the site is constrained and cannot be developed).
  - The potential density any of proposed scheme.
  - Whether any third parties benefit from a ransom position preventing access to the site.
  - Whether there are any title constraints.
  - The abnormal costs associated with developing the site (i.e. any untypical cost, such as deep pile foundations to mitigate ground concerns, flooding mitigation works etc.).
  - The planning policies that relate to a specific type of scheme.
  - Whether a purchaser benefits from synergistic value (formerly known as marriage value) with any neighbouring land they already own or will own in the future.
  - Whether a vendor is under financial pressure to sell.
  - Whether a house-builder is keen to have a presence in a particular location.
- 41 There are therefore a number of factors which impact the price someone is willing to pay for development land, because ultimately each development site is unique. This means it is extremely difficult to compare two land transactions because in reality



only some of the factors outlined above (which is not an exhaustive list) will be known to the analysing surveyor.

- 42 In this respect, land transactions are useful in providing a 'sense check' but they should not be regarded as providing a definitive view on values, particularly on a 'price per acre' basis, because in most cases the full details of the transaction (and the factors which impact value) will not be known. Information on land sales should be considered after the other sources of evidence identified as a sense check.
- 43 When assessing the evidence and considering appropriate TLVs the DVS looked to distinguish between greenfield and brownfield sites, for the reasons outlined previously.
- 44 The DVS has suggested the following ranges as being suitable Threshold Land Values for Northumberland.

Area	House Price (£m <sup>2</sup> )	Suggested TLV (£ per gross acre)
Low Value	Sub £1,750	£100,000 – £130,000
Medium Value	£1,750 - £2,250	£130,000 - £150,000
High Value	Over £2,250	£150,000 - £200,000
Brownfield Sites	-	£75,000 - £125,000

Table 1: Suggested TLV by House Price

## CONSULTATION

- 45 In the early stages of the Viability Assessment process the Council consulted members of its Development Viability Panel on land values. A range of market land values were presented. At this stage the figures were not derived from evidence and were therefore notional values presented simply as a means of generating discussion and debate. Panel members acknowledged the complexity of identifying a going 'market value'.
- 46 Some panel members requested that threshold land values be determined simply on 20-25% of gross development value. This was acknowledged to be a recognised approach to determining land values but was not the approach advocated in the RICS or Harman Guidance, nor was it suited to threshold land values for whole plan viability assessment testing.

- 47 In light of collecting evidence, securing the specialist input of the DVS and publishing further iterations of the Viability Assessment report, further issues were raised through consultation processes. Consultation with stakeholders is detailed in the main report and referenced in Appendix A to this Assessment report.
- 48 A range of correspondence was submitted by stakeholders specifically in reference to land values following consultation on the Viability Assessment of the Core Strategy and CIL alongside formal consultation on the Pre-Submission Draft Core Strategy in October 2015.
- 49 A number of respondents from the development industry expressed views that they consider the Threshold Land Values are lower than what they would expect to see in Northumberland. This is not unexpected, as this exercise seeks to identify the minimum price that a landowner would accept to release a greenfield site for development, in the context of providing competitive returns to both a willing land owner and a willing developer to enable the development to be deliverable, rather than a 'typical' value or minimum market value.
- 50 Whilst the Council has been keen to ensure the views of local land agents, developers and other stakeholders are taken into account, as acknowledged in guidance, the different drivers that motivate the activities and views of different stakeholders will lead to issues on which it is not possible to reach agreement.

## REVISIONS AND REFINEMENT

- 51 Informed by the evidence and by consultation findings, the Viability Assessment adopts a range of Threshold Land Values which are considered to represent suitable norms in view of the complexities discussed above. The Threshold Land Values used in modelling can be summarised as follows:

Value Area	Threshold Land Value
<b>Low Value Areas</b>	£115,000 per gross acre
<b>Medium Value Areas</b>	£140,000 per gross acre
<b>High Value Areas</b>	£160,000 per gross acre
<b>Highest Value Areas</b>	£160,000 per gross acre
<b>Brownfield Sites (Secondary and Tertiary Land)</b>	£125,000 per gross acre

Table 2: Suggested TLVs by Value Area

- 52      Where hypothetical sites are part brownfield and part greenfield site, the Threshold land value has been calculated based on the proportional makeup of the site.