Northumberland County Council

NORTHUMBERLAND CORE STRATEGY AND COMMUNITY INFRASTRUCTURE LEVY DRAFT VIABILITY ASSESSMENT: OCTOBER 2015

FOREWORD

This report has been prepared by Northumberland County Council to document the Viability Assessment of the Core Strategy and Community Infrastructure Levy (CIL). It follows the publication of a Core Strategy Viability Assessment Scoping Consultation Paper, which was subject to consultation between the 31st October 2013 and the 2nd January 2014 and an Interim Viability Assessment Report, which was also subject to consultation between the 12th December 2014 and 11th February 2015.

The Assessment has been prepared by the Council, led by Officers in the Planning and Housing Service, with the involvement of a cross disciplinary group, including Chartered Planners; and Chartered Surveyors from the Council's Strategic Estates Service. The Strategic Estates Service actively operates in the property market, including as a major land owner. They bring critical expertise in viability matters and invaluable knowledge of the Northumberland development market.

The work has been informed by input from the Northumberland Development Viability Panel (the Panel): a group of professionals with an interest or involvement in development in Northumberland. The Panel was established for the purposes of engaging the development industry in the Viability Assessment. It comprises representatives from house builders, commercial developers, agents, housing providers and planning consultants.

The assessment work was independently reviewed at an earlier stage, in advance of the Interim Report, by HDH Planning and Development and URS, acting on behalf of the Planning Advisory Service.

Professional advice has also been provided from chartered surveyors at the District Valuers Service (DVS).

The Assessment is deliberately high level relating to the viability of the Core Strategy and CIL rather than any individual site. Its limitations should be noted and the assessment should **not** be relied upon for individual site applications 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.

Northumberland County Council is considering pursuing the adoption of a CIL charge and becoming a charging authority. This Assessment will inform the preparation of a 'CIL Charging Schedule', which will be subject to separate formal consultation processes.

How to comment

You can submit comments on this report to the Strategic Planning and Housing Team as follows:

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INTRODUCTION

1.1 The term 'viability' refers to the economic viability of new development. Put simply it is about whether the end value of development sufficiently exceeds the costs of development, including the cost of building and land, to mean that it will happen.

1.2 In looking to provide advice on whole plan viability to support local authorities in achieving obligations in relation to examining the viability of their Local Plans the government established a review body, The Local Housing Delivery Group[1], chaired by Sir John Harman. The Group produced its report *Viability Testing Local Plans: Advice for planning practitioners* in June 2012 (The Harman Guidance). This report defined the meaning of viability in planning more precisely as follows:

"An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered."

1.3 In the context of plan making, viability is about more than the costs and values of a particular development scheme. It is about the viability of development under the provisions of a development plan.

1.4 The amount of development identified in a development plan, where it will be located and what policy requirements and obligations will apply, all have an influence on the costs and values of development. In other words, they all have an impact on 'viability'.

Purpose of the Viability Assessment

1.5 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[2]. It is also a requirement of Community Infrastructure Levy Regulations, and is a factor in undertaking the Strategic Housing Land Availability Assessment. In each case requirements are slightly different but all have much in common. Overall,

[1] The Local Housing Delivery Group (LHDSG) 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.

[2] Paras 173 and 174 of the National Planning Policy Framework.

testing viability is central to ensuring that a development plan and its strategy for an area are 'deliverable'.

1.6 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.

1.7 In accordance with National Planning Practice Guidance (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

1.8 The Viability Assessment of the Northumberland Core Strategy is not a one off exercise. Instead it is a process that has run alongside the preparation of the Core Strategy and has informed its policies and proposals. As set out in National Planning Practice Guidance '*Development of plan policies should be iterative – with draft policies tested against 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)

1.9 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 plan;
- 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.

Outputs

1.10 The outputs of the 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 the Community Infrastructure Levy, which will underpin a future CIL Charging Schedule.

Background

Policy Context

1.11 The principles and requirements for assessing viability in plan making are evident in a range of policies, regulations and guidelines 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.

1.12 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'.*

1.13 Paragraph 174 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.'*

1.14 National Planning Practice Guidance (PPG) for England 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)

1.15 The PPG does not prescribe how to assess viability but instead identifies the principles that should underpin consideration of viability. In essence the guidance 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)

1.16 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 (sq. m) on the gross internal floor space developed. The level of charge is known as the charging rate.

1.17 There are separate regulations and guidelines that govern the CIL and how a rate of Levy can be set. The Community Infrastructure Levy Regulations 2010, amended in 2012, 2013, and 2014 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.

1.18 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'* (para 175).

1.19 In this context, the Viability Assessment of the Northumberland Core Strategy was extended to include testing the impact of a CIL Charge. At this stage the assessment looks at a provisional level of CIL charge. This has been informed by the Northumberland Infrastructure Delivery Plan.

1.20 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.

1.21 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 Draft Infrastructure Delivery Plan prepared to support the Core Strategy identifies that there is residual a funding gap. The Council is therefore considering becoming a CIL Charging Authority and introducing a CIL charge in Northumberland.

1.22 The CIL can provide 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 be attached to a planning permission.

1.23 The precise costs of the 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 the Viability Assessment.

1.24 Whilst this Viability Assessment will provide evidence for the creation of a CIL in Northumberland, 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 Community Infrastructure Levy Regulations 2010 (as amended).

Other purposes

1.25 In addition to the above, 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 for particular areas or types of development.

1.26 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 such plans can similarly be demonstrated to be viable.

1.27 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

1.28 It is important to acknowledge the scope and limitations of a 'whole plan' Viability Assessment, which is not a precise science.

1.29 The Assessment has only tested the broad viability of the Northumberland Core Strategy. The Harman Guidance 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. It is therefore largely predicated on evidence based assumptions about what are norms and what is reasonably representative.

1.30 Overall, the Assessment takes a cautious approach. It adopts assumptions which are cautious and reasonable, rather than at the limits of viability. This cautious approach to each assumption has a cumulative effect. The assessment provides a high degree of certainty that the plan as a whole is deliverable. It therefore does not rely on development coming forward at the margins of viability.

1.31 Despite the cautious approach, there will inevitably be exceptions. There may be sites for which specific circumstances render a particular development unviable given the policies of the Core Strategy, even though those policies have passed the viability test. 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 the Assessment.

1.32 The fact that Northumberland is a large and diverse county should 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 tries to take account of a wide range of developments and variations at a localised level, in accordance with guidance, it necessarily adopts a proportionate and practicable approach, within the confines of available resources.

1.33 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.

1.34 Finally, consultation processes, most notably via the Northumberland Development Viability Panel[3] have ensured that stakeholders have had an opportunity to input to the Viability Assessment process. 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 members of the Development Viability Panel on all inputs and assumptions used in the Viability Assessment. Where Panel members 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, there remain known points of divergence.

[3] Northumberland Development Viability Panel – see terms of reference in Appendix A

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 national Planning Practice Guidance (PPG) namely:

- Evidence based judgement;
- Collaboration; and
- A consistent approach.

2.2 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 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. Policies and proposals will be further tested before being submitted for Examination.

- **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 taken of the cumulative impact of existing policies that may continue to be saved following the adoption of the Core Strategy.

- **Engagement and collaboration has been a key focus of the preparation of the Viability Assessment.** The Viability Assessment process has been transparent. The first formal opportunity for the general public to comment was on publication of the Core Strategy Preferred Options stage 2, October 2013. A Development Viability Panel was also established from an early stage to inform the process. Collaboration with neighbouring and other authorities and other agencies has also underpinned the approach. Summary details of the engagement and consultation to date is provided in Appendix A

- **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. T**he Assessment is based upon the Local Housing Delivery Group 'Viability Testing Local Plans' Advice[4] (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 to date. PAS were supportive of the approach taken including the robust evidence underpinning the approach.

[4] The document can be viewed on line at http://www.nhbc.co.uk/NewsandComment/Documents/filedownload,47339,en.pdf

3 METHODOLOGY

3.1 At the start of the preparation of the Viability Assessment a project team was established, led by the Strategic Planning and Housing Team. This included Chartered Surveyors from the Council's Strategic Estates Service. The Council is a major landowner. Officers therefore have first-hand experience of the current 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.

3.2 Early on in the process of the Viability Assessment, the Council also sought the involvement of external stakeholders with expertise in the Northumberland development market. Invitations to submit expressions of interest to be part of a Northumberland Development Viability Panel were sent to over 900 stakeholders including: house builders, commercial developers, local estate and land agents, registered social housing providers, planning consultants and landowners. Several departments across the Local Authority were invited to participate. The invitation was also put on the Council's web site and in the Viability Assessment Consultation Document. The Panel was duly established and first met in October 2013 where terms of reference were agreed (see Appendix B). The Panel met on a number of occasions to discuss the emerging approach and offer their own knowledge and experience. Separate discussions also took place with the HBF. Between meetings, information was shared with Panel members via email and comments on the Councils proposed approach to the Viability Assessment were invited.

Guidance

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

- **Viability Testing Local Plans: Advice for Planning practitioners (June 2012)** (commonly referred to as the 'Harman Guidance') – The Advice 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.

- **RICS Professional Guidance, England - Financial Viability in Planning (2012)** (referred to as the 'RICS Guidance') – The Guidance was produced by a working group supported by a consultancy team. It seeks to elaborate the NPPFs emphasis on deliverability and competitive returns to willing land owners and developers to enable sustainable development to come forward.

Methodology

3.4 The approach adopted has particularly closely reflected the method advocated in 'Viability Testing Local Plans: Advice for Planning Practitioners'. This proposes a five stage assessment process. Each of these steps are being 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 C sets out an evidence base review for the Viability Assessment. The review was initially undertaken at the start of the process. In the first instance, the review helped to identify scope for alignment of evidence and assessments.

3.6 Any inconsistencies or outdated viability assumptions within the various components of the evidence base have been addressed as part of the Viability Assessment e.g. taking into account more up to date intelligence about market conditions.

3.7 As identified in the review, there are key components of the Core Strategy evidence base of particular relevance to the Viability Assessment including but not exclusively:

- 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. In addition to this, the achievability section of the SHLAA (which includes viability) has been updated utilising the evidence collected as part of this Viability Assessment.

- The Strategic Housing Market Assessment (SHMA) and associated updates in December 2014 and October 2015 – 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 or otherwise of development. The Viability Assessment of the Core Strategy updates the Affordable Housing Viability Assessment, for example with more up to date sales values. Importantly it also tests affordable housing targets alongside the other policy requirements of the emerging Core Strategy, and the CIL to consider cumulative effects.

3.8 **Step 2: Agree the appraisal methodology, assumptions and information to be used.** As set out in the Core Strategy Viability Assessment consultation paper (October 2013), it was proposed that that viability assessment 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.

3.9 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 in Figure 1: The Residual Land Value Equation

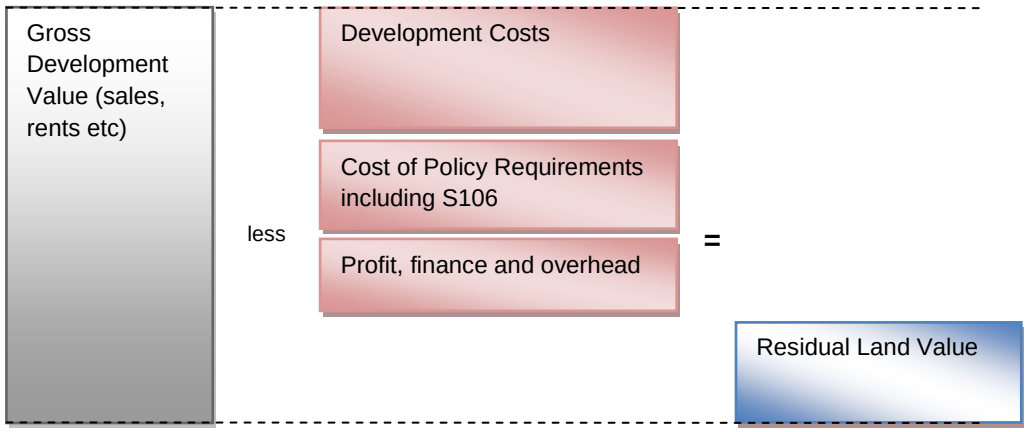

Figure 1: The Residual Land Value Equation

3.10 Guidance does not require applying the above equation to every development scheme likely to come forward over the plan period. The Viability Assessment is 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. Therefore, in accordance with the clear principles of the available guidance that the assessment should take a proportionate and practical approach, it was determined that residential typologies and hypothetical development schemes would be tested. The approach is discussed further in Section 5 and is consistent with PPG 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 PPG describes 'gross development value' (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.*' Costs (represented by the red boxes in Figure 1) reflect all development costs. As described in PPG this includes build costs, infrastructure costs, the cumulative costs of policies and professional fees.

3.13 The assumptions described in the following sections of this report have been identified as representing averages or 'norms'. Provisional assumptions were put forward for the purposes of discussion with the Development Viability Panel. They were informed by the available evidence; guidance and advice; professional judgement and experience; and analysis of recently delivered developments. As acknowledged in section 1 and as discussed in the sections 5 - 12, some assumptions were more contested than others. Where assumptions were contested, further research was undertaken. However, agreement has not been reached on all input assumptions used in the Assessment.

3.14 For the output of the equation, i.e. the 'Residual Land Value' (shown in blue in Figure 1) to be meaningful, an understanding of local land values is critical.

3.15 The 'Threshold Land Value' can be described as the value at which land owners would typically be willing to sell their land.

3.16 'Threshold Land Values' are inevitably subjective. In part they are determined by the existing use of the land and the specific circumstances and aspirations of a landowner. Whilst the viability assessment of the Core Strategy could not determine every land owner's decision in any particular circumstances, it has used the available

evidence and taken professional advice to make informed assumptions about typical land owner's expectations in Northumberland (see Section 12).

3.17 Where the 'Residual Land Value' is lower than the 'Threshold Land Value', the development type is unviable i.e. there is not enough value left over to pay the landowner a value that they would generally expect, therefore they will not sell, and the development will not happen. Where the Threshold Land Value is lower than the Residual Land Value the development type is viable. Furthermore there may be headroom or surplus against which a CIL can be charged.

3.18 **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:

- Viability Guidance
- The County Council's Planning Application Monitoring Database
- The Strategic Housing Land Availability 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 PAS
- Advice from DVS.

3.19 Members of the Development Viability Panel also submitted some information, namely: Examiners reports of other viability assessments; average house values by scheme; a list of sales and marketing overheads; and house sizes.

3.20 The information collected, together with the knowledge, experience and expertise of those involved has underpinned well informed professional judgements.

3.21 It should be noted that in presenting the various data collected, the Development Viability Panel advised that the property industry usually uses imperial data, although there are exceptions e.g. for costs which are often in metric (£/m2). For ease of reference, in most cases the data collected is therefore presented in both metric and imperial.

3.22 **Step 4: Viability appraisal and tests**. The information and assumptions have been entered into a modelling tool. There are various viability assessment modelling tools available on the market. Broadly the tools comprise formula based spreadsheets. Once assumptions are entered, the tools automatically calculate the Residual Land Value. This saves time in rerunning complex equations over and over. The Council had utilised the 'HDH' Model at the last interim report stage. This is a model developed by a consultancy practise which specialised in whole plan viability. It offered a number of benefits including not containing pre-fixed assumptions that could not be altered. The alternative modelling tool initially tested was the HCA Area Wide Modelling tool. Both tools offered advantages and disadvantages. Members of the Development Viability Panel suggested a preference for the Homes and Communities Agency model as a widely recognised model. The Council has responded by reverting to the HCA model.

3.23 **Step 5: Review outputs, refine and revise the modelling.** Following consultation on previous documents, as well as more detailed viability testing, changes have been made to achieve a balance between aspirations and economic viability. In line with the available guidance, the previous steps in the assessment process have also been revisited. Revisions have been made explicit in order to ensure a transparency. Where the viability testing has resulted in changes to policies these have been identified.

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 guidance[5], 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 types, the County Council reviewed a range of information including the Strategic Housing Land Availability Assessment and the Five Year Housing Land Supply document. 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 coverage 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; however there are more 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.

4.3 A large proportion of new housing development in Northumberland has come from small scale developments. Sites comprising 10 or less dwellings made up 33% of all completed dwellings between 2009 and 2013. It is forecast that small scale housing delivery will continue to play a large part 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 Main Towns and Service Centres. 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.

[5] Viability Testing Local Plans: Advice for Planning Practitioners (Local Housing Delivery Group Chaired by Sir John Harman – June 2012)

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.

4.6 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.

4.7 It was also agreed that the typologies would be tested at four different market value bands to take account of the relative strength of the market across the local authority area. Given the diverse nature of the housing market in the County, and in recognition of localised differences in values, in most cases, the types were expected to occur in all market value bands from the lowest to the highest.

4.8 As a result of engagement, Panel members had confidence in the profile of site typologies as being representative of supply over the plan period.

4.9 Analysis of the representation of each typology within the SHLAA is provided in Appendix D. This shows the correlation between what has been modelled and the type of sites likely to come forward. Not all developments neatly fit in the defined typologies, but in the main they are broadly captured.

Typology	Hypothetical Sites
Strategic Scale Settlement expansion	Extension of a Main Town in an urban area comprising 400 dwellings. Predominantly brownfield
	Extension of a Main Town or Service Centre. Comprising 350 dwellings. Greenfield.
Strategic Scale Settlement expansion including flatted development	Extension of a Main Town or Service Centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.
Significant scale main town or service centre infill or expansion	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 Greenfield, Brownfield mix.
Large scale settlement infill or	Settlement infill or expansion comprising 60 dwellings. Greenfield.

expansion	Settlement infill or expansion comprising 40 dwellings. Predominantly Brownfield.
Medium scale development	Settlement infill or expansion comprising 20 dwellings. 50:50 Greenfield, Brownfield mix.
	Settlement infill or expansion comprising 16 dwellings. Greenfield.
Small Scale development	Settlement infill or expansion comprising 10 dwellings. Predominantly Brownfield.
	Settlement infill or expansion comprising 10 dwellings. Greenfield.
	Out of settlement rural development comprising 6 dwellings. 50:50 Greenfield, Brownfield mix.
Minor scale development	1 dwelling development, not in a settlement, Agricultural brownfield land, 0.22 ha 1 dwelling development, in a settlement, Brownfield land 0.11 ha 1 dwelling development, Greenfield site, 0.18 ha 2 dwelling development, Brownfield, in a settlement 0.3

Figure 2: Development Typologies and Hypothetical Schemes

4.10 It should be noted that retirement apartments had initially been identified as a typology for viability testing. However, as identified in the Interim Viability Assessment report, preliminary results were regarded as potentially misleading. There are a range of products and services linked to retirement apartments. The degree to which they are serviced and have supporting facilities and amenities will influence values. This has been investigated further, however the Council has been unable to source sufficiently robust evidence. Given that these types of development do not occur frequently it was determined that it was not necessary to test the typology as part of the while plan Viability Assessment.

Specific Site Assessment

4.11 Planning Practice Guidance 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.'*

4.12 There are two housing led sites which are considered to be central to the delivery of the Core Strategy. These 'Strategic sites'[6] have been identified according to a methodology. As the resulting sites are subject to extant planning permissions, planning applications and or Section 106 agreement negotiations, site based viability assessments have not been applied as part of this whole plan viability assessment. It was considered applying site specific viability assessments could prejudice live planning processes and potentially compromise commercially confidential information.

4.13 The Council instead elected to commission the DVS to assess a small sample of four other real sites which were not subject to live planning applications but had been identified as potential development sites in the Strategic Housing Land Availability Assessment. The purpose of the exercise was to provide an independent sense check of the assessment of typologies.

Assumptions

4.14 In respect of hypothetical schemes, various site characteristics need to be assumed. A range of evidence was analysed in this regard (see para 3.18) including but not exclusively, the details of a sample of recently delivered development schemes chosen to reflect the above typologies.

4.15 In respect of the sample of four real sites, the assessments could be somewhat more precise, as further details were known.

4.16 The scheme characteristics were devised as follows:

Site Sizes and Capacity

4.17 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.

[6] It should be noted that the definition of strategic sites does not match the reference to 'strategic scale settlement expansion' above.

The developable proportion of sites

4.18 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'.

4.19 The SHLAA regional implementation guide was referred to as a benchmark in defining the net developable area for this assessment. 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 these 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%

Figure 3: SHLAA Regional Implementation Guide suggested net site ratios

4.20 At over 2 hectares, the guidance suggested a much smaller proportion of a site is 'developable'. Further research was undertaken to verify what proportion of recently delivered schemes over 2 hectares in Northumberland was developable. The sample of schemes was necessarily small, as the net developable area can be complex to measure. Based on approved layout plans, **Error! Reference source not found.** below demonstrates the approximate developable area, on a sample of sites and translates that into a proportion of the overall or 'gross' development site.

Name of scheme	**Approximate Gross and Net site areas (hectares)**	**Approximate proportion of site which is developable**
Chase Farm Drive (Phase 3) – 483 units	Gross 14.83, Net 8.46	57%
Land at 2a Chase Farm Drive (Barratt Site) - 83 units	Gross 2.2, Net 1.41	64.%
Wheatridge Park (Bellway) – 186 units	Gross 6.28, Net 4.61	73%
Land at North Road, Ponteland (Bellway), 38 units	Gross 1.52 Net 1.04	69%
Portland Park, Ashington (Persimmon) – 281 units	Gross 9.78, Net 6.83	70%

Synclen Avenue, Cramlington (Taylor Wimpey)– 18 units	Gross 0.52, Net 0.35	68%
Land off Cragside, Cramlington (Taylor Wimpey) – 36 units	Gross 2.17, Net 1.75	81%

Figure 4: Sample of Net Developable Areas

4.21 Although a small sample size, the figures suggest a slightly higher percentage of sites over 2 hectares is developable than i the SHLAA Guidance suggests, ranging from 57%-81% compared to the 50-75%. The average developable area for sites over 2 hectares in the sample is 69%.

4.22 It was initially considered that the suggested proportions in the SHLAA guidance 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%

Figure 5: Northumberland Viability Assessment Assumed net developable areas

4.23 In light of the sample of sites in figure 4 suggesting a higher developable proportion for sites over 2 hectares, further consideration was given to developable areas. In undertaking site specific viability assessments, by way of a sense check, the DVS also examined available evidence.

4.24 The DVS have 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 to consider whether the suggested assumptions in figure 5 were appropriate. 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+ dwellings	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
	Average	**31.32**	**20.96**	**69.60%**	**779**
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
	Average	**7.19**	**5.89**	**84.35%**	**199**

Figure 6: Sample of individual site appraisals undertaken by DVS

4.25 Based on the sample, figure 6 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%.

4.26 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. The viability assessment of the sample of real sites could take this into account. However, as with other assumptions, for the purposes of adopting assumptions for an area wide study, it is appropriate and reasonable to look to averages.

4.27 What is evident from both the Council's analysis and the DVS analysis (Figure 4 and Figure 6) 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 mid way point from the range in the SHLAA guidance (Figure 3) the assumed proportion of developable area for sites over 2 hectares was increased to 70%.

4.28 The assumed developable areas adopted in the Viability Assessment are therefore:

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%

The density at which housing is generally developed

4.29 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.

4.30 A large sample of around 1,000 completed development schemes of over 10 dwellings from the Council's application monitoring database was examined 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.

4.31 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.

4.32 Dividing the number of dwellings in a scheme by the total site size of the area subject to a planning application provided an overall density across the development area. The densities ranged significantly.

4.33 It was considered the average of 61 dwellings to the hectare could be afforded limited weight given the range of figures. The sample included what could be considered non-standard developments such as a number of flatted schemes with particularly high densities. The approach also failed to account for net developable areas.

4.34 In examining minor scale developments of 1 – 2 dwellings, arriving at meaningful averages was also problematic. More rural dwelling developments averaged around 0.1-0.2 hectares and equated to just 5 – 10 dwellings per hectare. Meanwhile more urban 'infill' type schemes were linked to very high densities.

4.35 In determining the most appropriate housing density further analysis was undertaken in respect of house size as the two are intrinsically linked. This is discussed below.

House Size

4.36 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.

4.37 In identifying house sizes, a range of existing 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 22 dwelling types in Northumberland, merged with research findings from work undertaken by Scott Wilson on behalf of CABE in 2010[7] into average dwelling size (see Appendix E). Some panel members felt the averages presented were not representative and further research was required. Caution was advised in respect of using accurate Gross Internal Areas.

4.38 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. As a result, the Council undertook more detailed research.

4.39 Based on recent developments across the County, a sample of over 260 house types was examined (see Appendix E). 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.

4.40 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). The guide defines the Gross Internal Area is the area of a building measured to the internal face of the perimeter walls at each floor level. Details of exclusions and inclusions are provided in Appendix E.

4.41 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 is by number of bedrooms. The average dwelling sizes were presented to Development Viability Panel members. Some members made recommendations suggesting amendments to the house type sizes. The averages

[7] Housing Standards Evidence and Research: Dwelling size survey- A report prepared by Scott Wilson for CABE in April 2010

were revised as a result of the information submitted by the Panel and are presented in Figure 7 below.

4.42 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	138.13	1486.8
5+bed house	189.20	2036.5

Figure 7: Interim Report Average Dwelling size

* 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%.

4.43 In undertaking viability assessment of specific sites the DVS reviewed the suggested average dwelling sizes as set out in Figure 7. 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. The sample 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. Taking the median figures, the assumed GIA's adopted in the Viability Assessment are as follows:

	Average GIA (m2)	Average GIA (ft2)	Average NSA (m2)	Average NSA (ft2)
1 Bed Flat	43.38*	466.94*	43.25*	465.34*
2 Bed Flat	66.52*	716.02*	65.14*	700.79*
2 bed house	65.03	699.98	64.19	690.68
3 bed house	91.75	987.59	86.31	928.66
4 bed house	124.38	1388.82	116.84	1257.20
5+bed house	182.985	1969.63	172.42	1855.08

Figure 8 Adopted Dwelling Sizes

4.44 In view of the number of minor developments in rural settings in the County, it was considered appropriate to use slightly larger 4 bed dwelling sizes for smaller sites of 2 units or less at 128 sq m or 1380 sq ft.

4.45 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 above.

4.46 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.

4.47 Lifetime Homes Standards had also been initially taken into account as these could similarly influence the size of dwellings. The Core Strategy Preferred Options 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 Full Draft Plan continued to seek to address this need. 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.

4.48 Both the Housing Quality Indicators and Lifetime Homes Standards have become outdated by recent changes.

4.49 Following a Ministerial Statement released on the 25th March 2015, a number of changes have been introduced to technical housing standards in England. This includes optional standards in relation to internal space.

4.50 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. The Government believes that it is right that local communities and neighbourhoods should have the ability to influence the size and type of new housing in their local areas, providing that this does not affect the viability of housing coming forward.

4.51 To implement the proposed standards requires a planning policy and a planning condition derived from that policy, attached to a planning permission.

4.52 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 adopted for this Viability Assessment. They do however include ranges as they express the standards according to number of bedrooms but also occupancy.

4.53 The consideration of technical housing standards for Northumberland will be appraised as part of work on the proposed Delivery Plan document. As such the Core Strategy does not include a planning policy requiring the standards.

4.54 The assumed dwelling sizes in Figure 8 which have been adopted in the viability assessment, do not 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 be subject to further viability testing.

House type mix

4.55 The NPPF requires local planning authorities to seek to address housing need.

4.56 The Northumberland Strategic Housing Market Assessment (October 2015) looks 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.

4.57 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.

4.58 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.

4.59 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.

4.60 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. Initial analysis of delivered schemes along with a snap shot of a sample of schemes is provided in Appendix F. The evidence serves 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 is it 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.

4.61 The analysis of delivered schemes according to number of bedrooms has to be treated with an element of caution. The evidence relates principally to market housing completions with limited account taken of affordable / social and intermediate housing. However, the data does 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.

4.62 Analysis undertaken by the DVS supported this view. It further noted the likely lack of apartments / flatted developments likely to come forward in Northumberland. 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.

4.63 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.

4.64 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.

4.65 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'.

4.66 The proportionate scheme mix for the purposes of modelling 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.

4.67 The assumed mix of affordable housing differs slightly from that for market housing. Reflecting the SHMA findings, the assumed mix is more weighted towards smaller dwellings i.e. a greater proportion of 1 and 2 bed dwellings.

	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 including flatted development	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%

Figure 9 Northumberland Viability Assessment Assumed house type mix by number of bedrooms

Resulting Site Capacity

4.68 The Northumberland Development Viability Panel suggested that the development industry often worked on the basis of the area of net saleable dwelling floorspace according to the net developable acre to determine the capacity of sites in their own appraisals. Evidence was submitted by Barratt and David Wilson Homes for a sample of schemes. It showed an average of 14,236 sq ft of net saleable dwelling floorspace space per net developable acre. A figure of around 14,000 – 16,000 sq ft of net saleable dwelling floorspace per net developable acre was echoed by other members of the Panel as being approximate averages for large scale housebuilders, albeit there wasn't agreement. One panel member suggested 16,000 sq ft is a minimum. Averages for small housebuilders were also identified as being likely to be lower depending on the nature of development but notably lower for rural schemes.

4.69 It was agreed that consideration of the net saleable area would provide a useful sense check of the Council's analysis of dwelling sizes and numbers. However, the

above figures could not be readily compared with the dwelling sizes assumed. Importantly the adopted dwelling sizes in Figure 8 are based on gross internal areas. The gross internal area differs from net saleable area. Net saleable areas were therefore also measured for a sample of dwellings. It provided a like-for-like comparison between the 'net saleable area' and 'net developable area' area as requested by some Panel members.

4.70 Net saleable areas were identified, which were measured in accordance with guidance from the Royal Institute of Chartered Surveyors 'Code of Measuring Practice: A Guide for Property Professionals (6th edition)(see Appendix E). They are presented in Figure 10 alongside the average gross internal areas.

	Average - Median GIA (ft2)	Average – Median NSA (ft2)
1 Bed Flat	466.94*	465.34*
2 Bed Flat	716.02*	700.79*
2 bed house	699.98	690.68
3 bed house	987.59	928.66
4 bed house	1388.82	1257.20
5+bed house	1969.63	

Figure 10 Northumberland Viability Assessment Assumed Net Saleable Areas and Gross Internal Areas

4.71 The above was used to further inform assumed dwelling densities. The assumed dwelling densities adopted in the viability assessment range from 20 – 26 dwellings to the gross hectare. The exception is minor scale development. The assumed dwelling densities adopted in the viability assessment for minor scale developments range from 5 – 9 dwellings to the gross hectare.

Summary Details of Hypothetical schemes

4.72 Using the above assumptions Figure 11 brings together the details of each hypothetical development scheme. It demonstrates that the hypothetical schemes broadly provide the range of net saleable area that would be expected by some panel members (approximately 15,000ft^2 net saleable area per net developable acre):

Figure 11 Summary of scheme size and net saleable area

Typology	Hypothetical Site Description	Gross Site Size (ha)	Net Site Size (ha)	Net Saleable Area (m2)	Net Saleable Area (m2) per net developable hectare	Net Saleable area (ft2) per net developable acre	Dwellings per ha (Gross)	Dwellings per ha (Net)
Strategic Scale Settlement Expansion	Extension of a main town in an urban area comprising 400 dwellings. Predominantly Brownfield.	15.5	10.85	39804.8	3,669	15,988	26	37
	Extension of a main town in an urban area comprising 350 dwellings. Greenfield.	14	9.8	34829.2	3,554	15,488	25	36
Strategic Scale Settlement Expansion including flatted development	Extension of a main town or service centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.	12.5	8.75	29853.6	3,412	14,868	24	34
Significant Scale Main Town or Service Centre infill or expansion	Extension or infill or main town or service centre comprising 200 dwellings. Greenfield.	8	5.6	19902.4	3,554	15,488	25	36
	Extension or infill or main town or service centre comprising 200 dwellings. 50:50 Brownfield/Greenfield.	8	5.6	19902.4	3,554	15,488	25	36
Large Scale Settlement Infill or Expansion	Settlement infill or expansion comprising 60 dwellings. Greenfield.	2.5	1.75	5970.72	3,412	14,868	24	34
	Settlement infill or expansion comprising 40 dwellings. Predominantly brownfield.	1.75	1.4525	3980.48	2,740	11,943	23	28
Medium Scale Development	Settlement infill or expansion comprising 20 dwellings 50:50 Greenfield/Brownfield Mix.	1	0.83	1990.24	2,398	10,450	20	24
	Settlement infill or expansion comprising 16 dwellings Greenfield.	0.7	0.581	1592.192	2,740	11,943	23	28
Small Scale Development	Settlement infill or expansion comprising 10 dwellings Predominantly Brownfield.	0.5	0.415	1080.65	2,604	11,348	20	24
	Settlement infill or expansion comprising 10 dwellings. Greenfield.	0.5	0.415	1080.65	2,604	11,348	20	24
	Out of settlement rural development comprising 6 dwellings 50:50 Greenfield, Brownfield mix.	0.3	0.3	648.39	2,161	9,419	20	20
Minor Scale Development	1 Dwelling Development, Not in a settlement, Agricultural Brownfield land 0.22ha.	0.22	0.22	128	582	2,536	5	5
	1 Dwelling Development, Not in a settlement, Brownfield land 0.11ha.	0.11	0.11	128	1,164	5,071	9	9
	1 Dwelling Development, Greenfield Site, 0.18ha.	0.18	0.18	128	711	3,099	6	6
	2 Dwelling Development, Brownfield, in a settlement 0.3ha.	0.3	0.3	256	853	3,719	7	7

5 RESIDENTIAL VALUES

5.1 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.

Northumberland Housing Market

5.2 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, have all influenced housing demand. However, there are firm signs of housing market recovery.

5.3 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. The national picture is one of successive value increases.

5.4 The ONS House Price Index[8] (April 2015, published June 2015) identifies that average house prices in the UK increased by 5.5% over the year to April 2015, although this represents a slowdown from the 9.6% increase seen in the year to March 2015. There has been a period of minor fluctuation in the housing market over the past six months; with average UK house prices seeing a modest fall of 1.3% between March and April 2015. The Land Registry House Price Index[9] (April 2015, released 1 June 2015) suggests price increases have slowed slightly, with a 5.1% increase in the year to April 2015.

5.5 There are marked differences in the picture of recovery 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[10] for Quarter 1 of 2015, prices in the capital were 36% above their 2007 peak. However the Q1 Index also shows that the pace of growth noticeably slowed in Q1 of 2015 across almost all regions; this is even the case in London where average prices were up 12.7% on year-on-year basis, which is comparable to the 17.8% level of annual growth seen to Q4 of 2014.

5.6 The ONS House Price Index (April 2015) reports that the prices being paid for new dwellings continued to increase, with a 9.0% average increase over the year to April

[8] ONS HPI (April 2015) - http://ons.gov.uk/ons/rel/hpi/house-price-index/april-2015/index.html

[9] Land Registry Monthly HPI (April 2015) - https://www.gov.uk/government/statistical-data-sets/house-price-index-statistical-report

[10] http://www.nationwide.co.uk/~/media/MainSite/documents/about/house-price-index/Q1_2015.pdf

2015. This is significantly above the growth rate for pre-owned homes, which saw a more modest 5.3% increase over the same period. However, this growth in new-build prices was down when compared to the 13.6% annual increase to March 2015.

5.7 According to data from April 2015[11], the North East actually saw a 0.6% decrease in average prices over the previous twelve months, compared to growth of 5.1% for England and Wales as a whole in the same timeframe. Northumberland showed a more positive performance when compared to the wider regional average, with house prices seeing a modest increase of 1.7% between April 2014 and April 2015.

5.8 The average house price in England and Wales is currently £179,817[12], which compares to a North East average of £98,374. The Northumberland picture differs from the regional average with an average house price across the County of £124,746.

5.9 The ONS House Price Index identifies the average price for 'new' houses across the UK in April 2015 at £270,000, up from £252,000 in August 2014.

5.10 The RICS Residential Market Survey[13] May 2015 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. Indeed, tight supply conditions are increasingly in evidence with average stocks per surveyor falling to a record low in May 2015 and new property listings now failing to see any meaningful growth since the end of 2013. However, looking ahead, three month sales expectations have strengthened with significantly firmer increases anticipated over the next twelve months.

5.11 The volume of housing sales has also generally been on the up. In the four months from September to December 2014, national sales volumes averaged 78,036 transactions per month[14]. This is an increase from the 77,204 per month over the same period in 2013. However sales at the beginning of 2015 have seen a significant drop, an average of 54,396 in January and February 2015, compared to the 65,089 average in the same period twelve months previously. In Northumberland sales transactions have increased annually from 2011, with the percentage increase growing each year, by 2.40%, 12.97% and 21.35% consecutive per annum to reach a total of 4,735 sales in 2014. It is too early to determine whether there will be a further increase in 2015 although sales data for Northumberland in January and February 2015 is actually 9.9% lower than for the same period in 2014, mirroring the national trend.

[11] https://www.gov.uk/government/statistical-data-sets/house-price-index-statistical-report
[12] https://www.gov.uk/government/statistical-data-sets/house-price-index-statistical-report
[13] http://www.rics.org/Global/5.%20WEB_%20May%202015%20RICS%20UK%20Residential%20Market%20Survey.pdf
[14] https://www.gov.uk/government/statistical-data-sets/house-price-index-statistical-report

5.12 Alongside an improving housing market, there has been a national upturn in housing supply. The number of new homes completed in England during 2014/15 has risen by 11%[15] when compared to the previous year, the highest relative percentage increase in 13 years. However, the number of housing completions for the quarter to March 2015 is still 30% lower than the peak level seen in the same quarter of 2007.

5.13 In Northumberland, rates of new housing development have varied in the years since the recession and across the County. Net additional dwellings fell most significantly in 2009/10. The net change in dwellings completed between 2012-13 to 2013-14 was a decrease and the net additional dwellings per 1000 stock was less than 4. The year ending 2014-15 has seen a significant uplift in completions . 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.

5.14 Over the period April 2011-July 2015 there has been a significant increase in the average value of new homes sold in Northumberland, with the 2014-15 sales period showing a 16.9% increase on the 2011-12 sales period. The year on year increase over the period is shown in the table below.

Financial Year	Average House Price	% change from previous year
2011-12	181,909.5	
2012-13	176,812.5	-2.8
2013-14	186,989.3	5.8
2014-15	212,642.8	13.7

Figure 12 Year on Year average house price change in Northumberland

County Variations

5.15 There are of course variations in housing market conditions across a County as large and diverse as Northumberland.

[15] Department of Communities and Local Government: Housing Statistical release 21 May 2015: House building: March quarter 2015, England - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/428601/House_Building_Release_-_Mar_Qtr_2015.pdf

5.16 In terms of new housing development, the former districts of Alnwick, Castle Morpeth and Wansbeck have 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.

5.17 Although only a snap shot, analysis of house sale transactions for 2014[16], 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.

5.18 In 2014-15 a wide range of sites have been contributing to housing in Northumberland. There are two sites, which have a total site capacity of more than 500 units in the South Eats Delivery Area. These yielded 54 units and 37 units respectively in the financial year 2014-15. Three sites of between 250 and500 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.

5.19 In respect of values, Appendix G provides value heat maps[17] capturing the varying values of both new build and previously lived in homes at a localised level. 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 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.

5.20 Value patterns were further confirmed in analysis of values achieved across all house sales in 2011-15 (using data from the Land Registry). The data suggests the lowest values are in the 'south east delivery area' in centres like Ashington, Newbiggin-by-the-Sea and Guidepost. Medium values are seen in centres such as Bedlington, Seaton Delaval, Blyth and Cramlington. High values are evident in Alnwick, Morpeth and Rothbury. The very highest values are found in Hexham, Ponteland and Corbridge.

5.21 Looking specifically at new build sales in 2014/2015, (1st April 2014 – 31st March 2015) the lowest sales values achieved for houses (i.e. excluding flats) were generally

[16] Data from Land Registry
[17] Value Heat Maps from Mouseprice.com

in Ashington and Blyth. However, the average value of a new build home in both locations was above the Northumberland average and above the average values of previously lived in homes.

Residential Development Revenue

5.22 Whilst an understanding of the overall housing market is valuable, as identified in the Harman Guidance, information on development revenue from local housing sales values is required for the purposes of modelling.

5.23 PPG sets out that '*values should be based on comparable market information*' which is what this section and accompanying appendices provide.

5.24 It is acknowledged that 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. Guidance states that '*Average figures may need to be used, based on types of development that the plan is seeking to bring forward.'*

5.25 Using data from a range of sources including Land Registry and web sites such as Zoopla, Rightmove, and nethouseprice, house values were identified for a sample of new schemes and then more broadly across the County. The data gathered relates mostly to sale values achieved. The Assessment does not use 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.

5.26 In order to ensure values were representative of current values the data gathered was also limited to sales from 2010 onwards i.e. post economic downturn.

5.27 Monitoring sales values will continue once the Core Strategy is adopted.

<u>Limitations of the Data</u>

5.28 There are some limitations to the available data that need to be acknowledged, as follows:

5.29 It has been identified that many of the lowest value homes relate to affordable homes (examined below) which aren't always easy to identify. The Council has records of where affordable homes are built, however it is not easy 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.

5.30 In addition some sales represent shared equity arrangements including through the Help to Buy Initiative. 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.

5.31 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.

5.32 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. As discussed in paras 5.4-5.6 the market has shown signs of improvement since the date many of the transactions were recorded. Nevertheless values have remained depressed since pre-recession times. Transactions several months or years prior to the date of this report do not necessarily reflect current market conditions.

5.33 In view of the limitations, the DVS were also 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 if transactions in specific locations.

Average Sales Values for New Build

5.34 According to data from the Land Registry, there were 1562 sales of new build homes between the 1st April 2011 and the 30th June 2015 in Northumberland.

5.35 The average value, including the affordable values, achieved over this time was £191,294. This is well above the Northumberland average value. This would in part be expected as new build properties generally attract a premium. It also exceeds the England and Wales average house price.

5.36 Values within the lower quartile of the data collected were mostly in the south east delivery area, particularly in Blyth. However, Blyth is a town with significant variations with some schemes attracting high values.

5.37 Values in the upper quartile of the data were almost exclusively in the Central and North delivery areas, however there are also exceptions.

Average Sales Values for All Homes

5.38 In order to supplement evidence of new build sales, sales of previously lived in homes were also analysed. New build sales alone provide a limited picture as they only exist where new build has occurred. Appendix G provides data and presentation of the data in map form. Market transactions or in other words home sales from 2010 onwards were assessed according to Parish areas. It is recognised that there are variations in values within parishes, however parishes were found to represent the most reasonable geographical basis for analysis given the size of the County. As much of Northumberland is rural with relatively few homes in many parts, as would be expected, there were very few home sales.

5.39 It was apparent on analysis of the sales that there were significant variations within some Parishes that could be easily accounted for. For example, the sales may have only, or predominantly come from large houses of relatively high values which can artificially increase the average. As such it wasn't possible to derive a meaningful average for the Parish. Recognising this limitation, the data was broken down according to property type i.e. detached and semi detached. 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 reasonable averages. The data is interpreted for the purposes of mapping according to where the Parish falls in the context of County wide sale averages. It is presented as Lowest Quartile, Below Median (25-50%), Above Median (50-75%), Upper Quartile (75-85%) and 85% Percentile (85%+).

Site Specific analysis of Values

5.40 In appraising specific sites, the DVS looked at local sub market conditions. The DVS commented on the uniqueness of sites and that a series of factors will influence values. The post code areas or adjacent post code areas of the site assessed were appraised in further detail.

Revenue by Size

5.41 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.

5.42 Using the sale value achieved divided by the gross internal area of a sample of new build homes, the value of a particular house per sq. m / sq. ft. was calculated. This approach provided very robust results. The sample comprised groups of dwellings within particular development schemes. Where a development scheme comprised multiple house types with the same number of bedrooms, e.g. more than one three bedroom house type, the average size of the three bedroom house types was

adopted. This analysis provided a sample of some 426 sales presented in summary below.

Settlement	Sample size	Average £ per square metre	Average £ per square foot
Ashington • Portland Park • Seaton Vale	33	£1,596.04	£148.28
Berwick upon Tweed • Mill Wharf	10	£2,103.35	£195.41
Blyth • South Shore • Horton Park • Chase Farm Drive (Large Site)	194	£1,501.82	£139.52
Corbridge • Princes Court	13	£3,675.95	£341.51
Haltwhistle • Orchard Gardens	12	£1,725.90	£160.34
Hexham • Shaftoe Crescent	1	£2,205.35	£204.88
Morpeth • Southgate Mews	12	£2,260.22	£209.98
Beadnell • St Ebbas Way	24	£2,356.77	£218.95
Seaton Delaval • Wheatridge Park	108	£1,812.61	£168.40
Wooler • Fenton Grange	12	£1,661.23	£154.33
Average		£2,089.92	£199.26

Figure 13: New build values achieved by sq m and sq ft

5.43 The DVS also examined a number of schemes to identify average values according to area. As stated above the DVS has access to data collected from Stamp Duty Land Tax returns for all property transactions. The results are as follows:

Scheme	Number of bedrooms	Average price achieved	Average size sq m	Average price achieved per sq m
Clearwell Place Bedlington	3 bed majority detached	176,150	83.13	2127
	4 bed all detached	216,117	110.60	1978

Pickering Close Cramlington	2 bed mix of semis and terraces	118,281	61.20	1933
	3 bed mix of semis terraces and detached	146,815	81.92	1798
Alexandra Chase Cramlingotn	3 bed all semis	160,215	76.67	2090
	4 bed mix of terraces, semis and detached	208,748	102	2033
Bassington Manor Cramlington	3 bed	Asking price 230,000		c. 2300
	4 bed	Asking price 230,000		C. 2150
Front Drive, Haggerston road etc, Blyth	2 bed all terraces	118,066	61	1923
	3 bed mix of terraces and semis	132,618	75	1769
	4 bed all detached	182,196	120	1521
Wellsley Drive, Blyth	2 bed all terraces	119,468	71	1693
	3 bed mix of terraces, semis and detached	163,928	82	1991
	4 bed all detached	217,908	111	1977
Lighthouse Grove , Pioneer Way etc Blyth	2 bed mix of terraces and semis	88,500	61	1446

	3 bed mix of terraces semis and detached	157,910	84	1867
	4 bed all detached	215,600	111	1952
Crofton Grange, blyth	3 bed	Asking price 141,000		c. 1800
Portland Wynd	4 bed	Asking price 230,000		C. 2350
Beaumont Court, Pegswood	3 bed mix of semis and detached	135,398	71.68	1900
	4 bed all detached	186,850	106.46	1770
Kylins, Morpeth	3 bed mix of terraces and semis	196,667	80.75	2410

Figure 14: Average Values acheived by £m2

5.44 There are clear limitations to both sets of data in respect of the 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. As set out previously, the sale values achieved for previously lived in homes were also considered. However, unlike new build dwellings where the precise size of the properties could be derived from approved plans, and DVS data, the size of older, and previously lived in homes would not be robustly identified. As a reasonable alternative, values achieved for semi detached dwellings were identified. It was considered in the main part semi detached properties would be likely to be three bed homes. The average values were therefore dived by the average 3 bed house size (see Figure 8). This provided an approximate value per square metre. The results are presented below.

Town / Service Centre	Approx Value per sq m of previously lived in homes	Average Value per sq m of new homes
Alnwick	£1978	
Amble	£1220	
Ashington	£1232	£1596
Bedlington	£1228	£2052
Blyth	£1287	£1816
Cramlington	£1509	£2050

Guidepost, Choppington, Stakeford	Insuffient sample	
Newbiggin by the sea	£1071 (small sample)	
Seaton Delaval	£1469	£1812
New Hartley	Insufficient sample	
Seghill	£1288 (small sample)	
Holywell	Insufficient sample	
Seaton Sluice	£1872	
Hexham	£2333	£2205
Morpeth	£2053	£2335
Prudhoe	£1443	
Corbridge	£3265 (small sample)	£3675
Ponteland /Darras Hall	£2583 (Ponteland only – no semi sales in Darras)	
Berwick	£1484	£2103
Belford	Insufficient sample	
Seahouses /Beadnell	£2384 (small sample)	£2356
Rothbury	£1744 (small sample)	
Wooler	£2104 (small sample)	£1661
Haltwhistle	£1637	£1725
Bellingham	Insufficient sample	
Haydon Bridge	£insufficient sample	

Figure 15: Average Values

5.45 Whilst there is a correlation between broad value areas, the data clearly demonstrates earlier points in this report that new builds attract a particular premium over previously lived in homes. This is generally the case however the difference is significant in certain parts of the County. This in part reflects the nature of some existing stock which does not always meet modern living aspirations.

5.46 The DVS's viability assessment of specific sites identified values taking into account site specific considerations.

5.47 Taking account of all of the available evidence and applying professional judgement the assumed house values adopted in the Viability Assessment for new build homes are banded as follows:

Low – £1600 sqm

Medium – £1900 sqm

High – £2300 sqm

Highest –£2600 sqm

Affordable Housing Values

5.48 A provisional target of 30% affordable housing had been tested through an Affordable Housing Viability Assessment. This was reappraised as part of the Viability Assessment of the Core Strategy and CIL so that it may be considered in the context of the wider strategy and other policy requirements collectively.

5.49 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 proposes 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.

5.50 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.

5.51 Affordable housing funding regimes have changed in recent years. Historically, affordable housing has been subsidised through grant funding administrated 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.

5.52 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 it proves grant is available the viability inevitably improves, potentially increasing the level of affordable housing that is viable. This can be tested through the Viability Assessment model and can be tested in respect of specific schemes at the stage of a planning application.

5.53 The gross development value of affordable housing can be calculated in a number of ways. For the purposes of this Assessment, a relatively simple approach has been taken. It is based on affordable 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.

5.54 Gross development values for social housing are derived 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	£106.61*

Figure 16: Average rental values (per week)

5.55 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 therefore adjusted to £103.85 per week in accordance with the lowest Local Housing Rate in the County.

5.56 The above figures have not been presented to the Panel for agreement. The figures are also not distinguished according to locality. The figures presented were identified as approximate rental values for the purposes of the Viability Assessment.

5.57 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 as illustrated below.

	Capitalised Value	Capitalised value per sq. m (according to assumed average size)
1 bed	46,231	1056
2 bed	61,304	856
3 bed	81,895	877
Average value per sq. m		**£929**

Figure 17: Capitalised Affordable Values

5.58 For intermediate housing offers, including discounted sale prices and shared equity schemes, a range of evidence was 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 open market values. This was considered as a cautious assumption as many developers seek 80%.

Value bands	Capitalised value for Intermediate housing such as shared equity (based on 70% of market values)
Low	£1,050
Medium	£1,190
High	£1,610
Highest	Na*
	£1,283

Figure 18: Capitalised Intermediate Values

*Whilst development in the highest value areas could provide intermediate housing it was considered these developments were generally an exception and would unduly skew the average value.

5.59 In undertaking site specific appraisals, the DVS also looked to examine affordable housing assumptions. The DVS assumed the same tenure split of 67% affordable rented and 33% intermediate. Off site contributions weren't factored in as this is generally not the Council's preferred approach for securing affordable housing.

5.60 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 (as applied by the Council); and
- Transfer values submitted by applicants as part of their own viability assessments

5.61 Taking a sample of modern houses across Northumberland, which were either available to let or have 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:

Street	Locality	Type	Bed	Rent pcm	Rent pa	Market Value	TV 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	Morpeth	Det	4	900			60.10%

Drive					10,800	260,000	
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%

Figure 19: Total value as a percentage of market value

5.62 Of the 12 houses identified we have identified, Transfer Values show a range of 46.32% - 60.74% of the Market Value (with an average of 53.19%).

5.63 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.

5.64 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 is understood to be concern in the industry from Registered Providers that measures due to be introduced will impact on their income levels. As a consequence there is a suggestion that there will be a downward pressure on Transfer Values, at least in the short term. Whilst it remains to be seen whether these current concerns will translate into real reductions in Transfer Values, the DVS suggested it would be prudent to model a cautious approach and adopt a transfer value equivalent to 45% of the Market Value.

5.65 For intermediate or shared ownership housing a similar exercise was applied 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
Glendford Place	Blyth	Det	4	235,000	70.91%
Allendale Rd	Blyth	Semi	4	235,000	70.91%
Aysgarth	Cramlington	Semi	3	170,000	70.24%
Meadow Close	Cramlington	Semi	4	230,000	70.88%
Tyelaw Meadows	Lesbury	Det	3	210,000	70.70%
Allerburn Lea	Lesbury	Det	4	285,000	71.23%
Chestnut Way	Morpeth	Det	3	192,500	70.52%
De Merley Gardens	Morpeth	Det	3	192,500	70.52%
Kirkharie Drive	Morpeth	Det	4	260,000	71.08%
Maple Drive	Morpeth	Det	4	260,000	71.08%
Fourth Avenue	Morpeth	Semi	2	137,500	69.66%
Maple Drive	Morpeth	Semi	3	192,500	70.52%

Figure 20: Total Value as a percentage of market value

5.66 Of the 12 houses identified 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.

5.67 Again, given Registered Providers apparent wary approach at the time of undertaking the work, a cautious approach was adopted in the site specific

assessment, using transfer values at the lower end of the range, being 67.5% of the market value.

5.68 The Council's and DVS's methodologies for arriving at affordable housing varies. The assumed affordable values adopted in the Viability Assessment in figures 17 and 18 are generally at the lowest end of the values adopted by the DVS in their site specific appraisals.

5.69 As identified above, in practice, affordable housing revenues will vary according to the nature of each individual development. The assumptions adopted were identified as representing reasonable averages but should be acknowledged to be cautious.

6 RESIDENTIAL DEVELOPMENT COSTS

6.1 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 is appropriate.

6.2 The following sets out how residential development cost assumptions have been arrived at, including the views of Panel members and the research undertaken.

Build Costs

6.3 The BCIS Quarterly Review of Building prices is commonly used as an indication of build costs.

6.4 The BCIS data is expressed in £ per sq. m 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 and sheltered housing developments, which have been specifically tested separately.

6.5 The figures are '*contract sums excluding external works and contingencies with preliminaries apportioned by value'.*

6.6 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.

6.7 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.

6.8 The BCIS build cost for general estate housing for Northumberland at the time of preparing this report is as follows:

BCIS general estate housing build costs	Lower Quartile	Median	Upper Quartile
	872 per sq m	992 per sq m	1123 per sq m

Figure 21: BCIS General Estate Housing Build Costs

6.9 The figures include the current Northumberland factor of 103, which has increased since the time of the Interim Viability Assessment Report at which point it was 95.

6.10 In assessing specific sites the DVS commented that there were other data sources on build cost which may be taken into account. The BCIS Quarterly Review figures are described as being derived from tenders. The vast majority of data comes from schemes of 50 dwellings or less. It does not therefore include information from volume house builders who may be reluctant to share build cost information as it can be commercially sensitive.

6.11 Volume house builders can generally achieve economies of scale and are able to construct dwellings for less than a local builder. For larger scale projects the limitations of BCIS were therefore recognised.

6.12 The BCIS also tracks tender prices not actual costs. The reality is that developers will typically look to negotiate down tenders. In this regard the BCIS figures can reasonably be considered to be inherently high.

6.13 In terms of other sources of build cost information, 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.

6.14 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 £892 per sq m.

6.15 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 cannot be revealed. However, the DVS

has 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 – see Appendix I. The range of build cost estimates in these assessments is from £721 - £893 per sq m providing an average of £802 per sq m.

6.16 Although there are clearly limitations to the BCIS data, and they are considered to be high, they are commonly accepted for the purposes of whole plan viability assessments and are recommended as an appropriate source of data in the Harman Guidance. The BCIS figures have therefore been adopted in the viability assessment.

6.17 However, in view of the additional evidence available to DVS, a sensitivity test has been applied which assesses larger development typologies at lower build costs as identified in Figure 22. The DVS has similarly adopted its own assumed build costs in the case of assessing specific sites adjusted according to precise site details.

Adjusted evidence based build costs	Median
	834sq m

Figure 22 Adjusted Build Cost for Sensitivity testing

Additional Normal Build costs

6.18 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

6.19 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.

6.20 The Panel indicated that this should be higher. In response to the Panel's comments further research was undertaken. No evidence could be found that supported 15% or more across all sites.

6.21 Further to advice from the District Valuation Service it was determined that a more robust calculation of external costs was possible based on a cost per square metre rather than a percentage uplift on build costs.

6.22 In appraising specific sites, 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.

6.23 The assumed cost of externals adopted in the Viability Assessment is £325,121 per gross hectare (reflecting most typologies are between 3.5 and 11.5 hectares).

Contingencies

6.24 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.'*

6.25 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 whole plans. There was evidence of a range of costs for contingencies within the parameters suggested i.e. 2.5 – 5%. In appraising specific sites the DVS used a contingency allowance of 2-3%.

6.26 In view of the evidence, and taking the Panel members views into account the contingency adopted in the viability assessment is 3.75% on build costs which been adopted across all sites.

6.27 It should be noted that some Panel members contested the BCIS figures previously presented as being too low, and asked that build costs be expressed as an all-inclusive cost with the external and contingency costs included. The external costs have now been identified as a cost per hectare therefore cannot be presented in this way. Furthermore, 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 have not been tallied up to a single build cost figure.

Build Costs Over Time

6.28 Assumed base build costs will inevitably vary over time. The recession saw deflated build costs for a time, which have since risen and been at relatively flat levels until recently when they have begun to rise again. Development Viability Panel members reported that build costs are forecast to increase more significantly. Accounting for changes to costs and values over time is addressed in section 12.

Abnormal Build costs

6.29 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.*'

6.30 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 this 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 most of the sites coming forward were greenfield sites where significant 'abnormals' would not be expected.

6.31 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.

6.32 In undertaking site specific appraisals the DVS agreed with the Council that it is not normally appropriate to look at abnormal costs when undertaking district wide viability studies, because these cannot normally be known until a full scheme design is completed and the relevant due diligence undertaken. However, for the purposes of site specific assessments abnormals could be factored in.

6.33 In light of the evident complexities of determining abnormal costs and the nature of future land supply, it was assumed that no abnormal costs would be tested in the Viability Assessment (other than in the case of the DVS's assessment of specific sites where abnormals were known).

6.34 In order to respond to Panel members views it was however considered that abnormal costs could be assessed as a sensitivity test. A sensitivity test has therefore been applied on brownfield typologies which tests abnormals equating to 10% of build cost.

Professional Fees

6.35 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.

6.36 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 would be used to ensure a cautious approach is adopted in the Viability Assessment.

6.37 In undertaking site specific appraisals, 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%.

6.38 The assumed professional fees adopted in the Viability Assessment is 10% of build cost.

6.39 In light of the additional evidence, a sensitivity test was applied, which tested 6% of build costs for professional fees for larger scale sites.

Sales and Marketing

6.40 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 allowance was made for 3.0% 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.

6.41 In the absence of robust evidence to the contrary, the Viability Assessment adopts the advice provided in the Harman Guidance 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 was reasonably representative, plus £500 per residential unit for legal fees.

6.42 In undertaking site specific appraisals, the DVS could adopt more informed sales and marketing costs for those sites examined.

6.43 The sales and marketing costs adopted in the Viability Assessment are 4% on gross development value, plus £500 per residential unit for legal fees

Site acquisition fees

6.44 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.

Finance costs

6.45 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 is appropriate for a Viability Assessment of this nature.

6.46 The Bank of England base rate has remained low at 0.5%. Commentary at the time of the Assessment suggests the base rate will remain at around 0.5%. The Bank of England identified that only gradual rises in the base rate should occur over the next few years in line with the current market path, remaining consistent with absorbing slack and returning to inflation at the target within two years. [18]

6.47 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 adopted in the Core Strategy are at 6.5%.

Developer Profit and overhead

6.48 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'.* PPG 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

6.49 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

[18] Bank of England Inflation Report. May 2015

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.

6.50 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.

6.51 The Viability Assessment assumes developer profit at 20% of gross development value.

6.52 The exception to this assumption was for small scale sites within the typologies of Small and Minor Scale development where a developer profit assumption of 17% of GDV has been adopted to reflect the lower risk profile of developments of this scale.

6.53 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. This approach is reflected in most appraisals and studies, regardless of their specific purpose.

Build Periods, Lead in Times and Sales Periods

6.54 The assumed build periods, together with a lead in time and duration for sales/lettings has been informed by professional experience and examples, including those provided by members of the Panel.

6.55 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 than the assumed build period.

6.56 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.

6.57 In undertaking site specific appraisals the DVS adopted its own assumptions based on site details.

7 COMMERCIAL TYPOLOGIES

7.1 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. The gross development value of a commercial development can be expressed as the capital value of the completed scheme or it can be derived from the yield associated with the rental value of a scheme.

7.2 The County Council reviewed a range of information to consider what types of commercial development could come forward in the plan period 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 emerging planning policy and the resulting likely development requirements.

7.3 In addition, the work looked at historic completions to consider types of past development. The latter had to 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 development is far more limited than residential schemes and this is likely to continue to be the case.

7.4 The Council suggested to the Development Viability Panel that the Viability Assessment did not require individual testing of every site or form of commercial development. Instead, it was proposed that the Assessment should be based upon site typologies and hypothetical sites. The Panel members were agreed with the suggested approach.

7.5 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 known levels of subsidy required to support certain schemes. However, there was acknowledgement that this situation would be likely to change over time. Moreover, there are some forms of commercial development that are currently viable.

7.6 While commercial developments are often subject to fewer policy requirements than housing, as discussed in section 2 of this report, the potential introduction of a Community Infrastructure Levy (CIL) is an important consideration. The Levy can be set at a differential rate for different types of development. Introducing differential

rates must be supported by appropriate evidence. This assessment will form an important component of the evidence towards understanding the viability of commercial schemes and their capacity to contribute to a CIL charge. At this stage, the Viability Assessment does not consider setting charges but instead looks at provisional amounts of CIL that may be afforded. Further testing is required.

7.7 As well as a cost to development, the CIL is expected to have a positive economic effect on development across the area. An appropriate balance has to be struck between securing additional investment that can support infrastructure and the potential effect on the viability of developments.

7.8 Figure 23 below identifies the commercial / non-residential typologies identified.

	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

Figure 23: Commercial typologies

7.9 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.

Assumptions

7.10 Various site characteristics need to be assumed to appraise the above typologies and devise hypothetical developments. A range of evidence was analysed in this regard including the details of a sample of recently delivered development schemes and the Employment Land Schedule.

7.11 The following summarises the findings of interrogating the information and the rationale for identifying each of the proposed commercial typologies:

A –Supermarket (A1)

7.12 In Northumberland, supermarket development is likely to occur in both Main Towns and Service Centres within both central locations and on occasion on the edge of settlements as part of other commercial schemes. Development of this scale outside of main towns or service centre i.e. in more rural locations would be unlikely to be supported by policies in the emerging Core Strategy or by national planning policy. It is also unlikely to be attractive to the industry. It is not considered likely that a hypermarket size store would come forward in the County.

7.13 These developments would generally come forward on Greenfield land, due to the shortage of brownfield land in suitable locations.

B – Small Supermarket (A1)

7.14 Small supermarket developments are likely to occur in a range of contexts such as in Main Towns and Service centres, along with smaller settlements and edge of settlement locations. The big four supermarket operators have rolled out smaller stores targeted at 'top up shopping', meanwhile the likes of discount and premium supermarket chains have expanded and developed these kind of small format supermarkets. Industry commentary suggests this trend will continue.

7.15 These developments come forward on both greenfield and brownfield land, and are likely to include conversions of existing premises. Examples of such development has included the conversion of pubs and petrol filling stations in recent years.

7.16 **C – A1 Mini Supermarket e.g. Sainsbury Local, Tesco Express**

7.17 Mini Supermarkets are likely to occur in most Main Towns and Service Centres in all delivery areas. These are often operated by some of the 'big four' supermarkets and tend to be delivering convenience/neighbourhood level shopping. This type of development is likely to be delivered on brownfield infill sites, but also as part of new development schemes and conversions/ changes of use.

7.18 These developments have started to become popular with developers in order to tap into convenience shopping and as these size of store are below the size thresholds (280m2) which are governed by Sunday trading laws, enabling these stores to trade longer hours. There is potential that alterations of Sunday trading laws will impact upon this type of development.

D – Retail Warehouse (A1)

7.19 Within the County, retail warehouse development would be expected to occur in Main Towns. Developments of this scale outside of Main Towns or Service Centres would be unlikely to be acceptable in planning terms and would also be unlikely to be attractive to the industry.

7.20 Although sharing some of the characteristics of supermarkets, retail warehouses have been modelled separately to account for the differences between locational factors influencing their development, the type of goods provided and factors such as trips generated.

7.21 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 majority of future development of this type would come forward on Greenfield sites due to the scarcity of suitable brownfield land within the County.

E – A1-A5 Small Retail/Service

7.22 In Northumberland, small retail and service development is likely to occur within Main Towns, Service Centres and lower tier centres, across all Delivery Areas defined in the Core Strategy. This type of development is likely to be delivered on brownfield infill sites/premises, but also as part of new development schemes.

F– Town Centre Office

7.23 Few new town centre offices have been created in the county in recent years. However, as the Northumberland economy grows and strengthens it is considered important to assess this type of development through the Viability Assessment. Town centre offices are likely to be delivered on brownfield sites or through conversions.

G – Out-of-Town Office

7.24 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.

H Industrial/Manufacturing

7.25 Industrial and manufacturing developments in Northumberland are likely to come forward within certain Main Towns including but not exclusively Cramlington, Blyth and Prudhoe. A large scale development has been selected for this typology to reflect the type of development which has come forward historically in Northumberland.

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 such as the County's new business parks.

I - Light Industrial (B1c)

7.26 Light industrial development in Northumberland would be expected to come forward across all the Delivery Areas. A smaller scale development has been chosen for this typology as this typifies the market. There are a number of smaller units, frequently grouped together in clusters. It is envisaged that these are likely to come forward on a range of brownfield and greenfield sites.

J - Storage and Distribution

7.27 Storage and Distribution development in Northumberland would be expected to come forward across the all Delivery Areas. These uses will 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.

K– Hotel (Out of Centre)

7.28 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. There is a tendency for this type of development to be sited in similar locations to typologies A and B, on greenfield sites, due to the scarcity of brownfield sites in suitable locations.

L– Leisure Attraction

7.29 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 appraising viability, big box leisure development, e.g. cinema, bingo hall, bowling alley, has been chosen. These types of schemes are often delivered on similar sites to Typologies A and B. It is anticipated that this type of development would come forward on greenfield sites due to the scarcity of brownfield sites in suitable locations.

<u>Other typologies</u>

7.30 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.

7.31 Some tourism and leisure related development is included in the typologies being tested. For example, the likes of cafes, restaurants and shops are in the most part captured in typology C. 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.

7.32 There are current proposals for a new holiday and leisure park close to Widdrington. The scheme includes a range of sports and leisure facilities and tourist residential accommodation. Whilst the fact the scheme is being pursued 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 their viability at this time.

7.33 Holiday lets are similarly a missing typology, 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 holidays 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. Given the limited market evidence and limitations with regard to how they could be identified, they have not been subject to viability appraisal at this time.

7.34 Some very small scale development types are excluded from the assessment. In any instance they would not be liable for the Community Infrastructure Levy. Non-residential developments providing an addition of less than 100 sq. m 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 100 sq. m would not be liable for CIL.

Development Sizes and site ratios

7.35 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.

7.36 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.

7.37 A sample of developments in Northumberland, within each of the typologies, was identified for further analysis (see Appendix J). What became apparent was that the sample was necessarily small as not all types of development regularly occur or have occurred recently. 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.

7.38 Given the complexity of measuring sites and floor space of existing schemes a number of viability assessments from across the Country were appraised. Advice has been 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 in line with Guidance, only developments of over 100 m2 are included.

	Definition and Use Class	Average Assumed GIA (Sqm)	Average Assumed Site coverage (%)	Average Assumed Site size (ha)
A	A1 - Large supermarket	2500	40	0.64
B	A1 – small supermarket	1200	30	0.4
C	A1 – mini supermarket	270	70	0.04
D	A1 - Retail warehouse	2300	40	0.58
E	A1 - A5- small retail/ service	270	70	0.04
F	B1a - Town Centre	1150	115	0.05
G	B1a - Out of centre	3200	50	0.64
H	B2 – Industrial / Manufacturing	*2900	40	0.73
I	B1c - Light Industrial / distribution	*3600	40	0.9
J	B8 – storage and distribution	6,900	35	1.99
K	C1 hotel - out of centre	2500	60	0.42
L	D2 Leisure	2800	40	0.7

Figure 24: Commercial typologies average sizes, site coverage and site size

7.39 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.

7.40 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 above provided reasonably representative sizes for the purposes of viability testing, based on the available evidence.

8 COMMERCIAL VALUES

8.1 To appraise matters of deliverability and to determine the gross development value of schemes, it is necessary to understand broad commercial market conditions.

8.2 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.

Northumberland Commercial / Non-residential Market

8.3 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.

8.4 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 500 sq. ft. up to 30,000 sq ft. 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.

8.5 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.

8.6 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.

8.7 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[19], 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)[20], 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%).

8.8 In respect of the property market, the Q1 2015 RICS UK Commercial Property Market Survey[21] highlights continued strengthening in both the occupier and investment

[19] http://www.ons.gov.uk/ons/rel/gva/gross-domestic-product--preliminary-estimate/q1-2015/index.html

[20] http://www.ons.gov.uk/ons/dcp171776_369754.pdf

[21] http://www.rics.org/Global/RICS%20UK%20Commercial%20Property%20Market%20Survey%20-%20Q1%202015.pdf

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 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."

8.9 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

8.10 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 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, and rent free periods or other incentives. Freehold transactions are similarly based on values per square foot/per square metre but are capital values. They are likewise influenced by factors that may not be apparent.

8.11 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, such as the views expressed by members of the Development Viability Panel.

8.12 They 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 what is considered to be reasonably representative.

Rents

8.13 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.

8.14 Appendix K provides a summary of the evidence collected. 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.

Industrial

8.15 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 9,000sqm at Blyth Riverside, advertised rental values per annum averaged at around £4.00 per square foot or £43 per square metre.

8.16 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 £3.00 - £5.00 per sq ft (£32.28 - £53.80) depending on the age and size of the unit.

8.17 Research from Colliers International[22] from 2015 on average industrial rents suggests secondary rents for older small sheds in Newcastle upon Tyne to be £4.25 per square foot and for large sheds £3.50 per sq ft. Average rents for new accommodation in

[22] Colliers Industrial Rents Map

the same locations attract a premium at £5.25 and £4.50 per square foot (£56.49 – £48.42 per square metre) respectively.

8.18 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 ar 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 £2.23ft^2-£7.43ft^2 in the North of the County, £2ft^2-7.50ft^2 in the South East Delivery Area, £2ft2-£7.54ft^2 in the Central Delivery Area and lower at £1.50ft^2-£5ft^2 in the West Delivery Area.

Retail

8.19 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.

8.20 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 £400 - £499 per square metre in Morpeth although it is not known if this level of rent has been sustained.

8.21 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.

8.22 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%[23].

8.23 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

8.24 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.

8.25 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 650 sq ft at £10.77 per sq ft (£115.18 per sq m). The larger office accommodation (no more than 3,000 sq ft) is reportedly showing rental evidence at £11 to £14 per sq. ft. (£134.50 to £145.26 per sq. m). Similar levels of rents are identified at Telford Court in Morpeth (£12.50 per sq. ft. and £16.11 per sq. ft.) 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 £14.50 per sq. ft. (£156 per sq. m) with flexible lettings.

8.26 Colliers research[24] 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 £10 per square foot for older accommodation and £16 for new premises (£107.60 – 172.16 per sq. m). 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'.

8.27 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 beween £2ft^2 and £9.50ft^2 were identified in the

[23] Colliers International Research & Forecast Report UK | GB Retail Report Autumn 2014
[24] Colliers Office Rents Map 2015

north delivery area, £4ft^2 and £14ft^2 in the South East, £10ft^2 and £20ft^2 in the Central Delivery Area, and £3-£6ft^2 in the West Delivery Area.

Yields

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

8.29 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.

8.30 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.

8.31 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	Approximate yield %
A1 - Large supermarket	5
A1 small supermarket	7.5
A1 - Retail warehouse	7.56
A1 mini supermarker	6.5
A1 – A5- small retail/ service	7.0
B1a – Town Centre	7.5
B1a - Out of centre	7.5
B2 – Manufacturing	8
B1c – light Industrial / distribution	8
B8 Storage and distribution	8

Figure 25: Approximate commercial yields

Capitalised values

8.32 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. It should be noted that these values are yet to be verified by the development industry.

Commercial Site Typology Definition and Use Class	Capital value per sq m
A1 – Large supermarket	2800
A1 – Small supermarket	2800
A1 – Retail warehouse	1700
A1 mini supermarket	2800
A1 - A5- small retail/ service	1200
B1a - Town Centre	1400
B1a - Out of centre	1500
B2 - Industrial / Manufacturing	700
B1c/ - light Industrial /	750
B8 storage and distribution	750

Figure 26: Commercial/Non-residential Capitalised Values per sq. m

9 COMMERCIAL DEVELOPMENT COSTS

9.1 Development costs are variable from one scheme to another. The Viability Assessment presents an overview of development costs from the available evidence.

9.2 The following sets out how commercial development cost assumptions have been calculated.

Build Costs

9.3 Building costs are based on BCIS Quarterly Review of Building prices (August 2014) which is from data from the 1st Quarter of 2014. The available data will be monitored and where necessary, build costs assumptions updated to reflect the latest position in advance of the Core Strategy examination.

9.4 The data is expressed in £ per sq. m of the gross internal floor area and is derived from analysis of tender prices.

9.5 The figures are 'contract sums excluding external works and contingencies with preliminaries apportioned by value'. A location factor for Northumberland is applied, in recognition that the cost of building is affected by its location.

9.6 Where the typology is likely to include more than one building type, the varying build costs have been distinguished.

	BCIS Building function description	Median BCIS build cost £ m2 (including Location factor
	Hypermarkets / supermarkets generally	1014.6
	Hypermarkets / supermarkets generally	1014.6
	Retail warehouses generally	539.6
	Shops generally Café, snack bars, coffee bars, milk bars	707.75 1834.45
	Hypermarkets / supermarkets generally	1014.6
	New build: Offices with shops, banks, flats etc. Offices generally Rehabitation / Conversion: Offices with shops, banks, flats etc Offices generally	 1075.4 1182.75 1746.1 649.8
	Factories generally Purpose built factories	608 703.95
	 Factories generally Purpose built factories	4 608 703.95
	Purpose built warehouses /stores generally	470.25
	Hotels	1352.8
	Big Box leisure (Cinema)	1169.45

Figure 27: Commercial BCIS Costs

Additional Normal Build costs

9.7 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

9.8 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 Ashwood business park. However, there are still likely to be costs such as landscaping.

9.9 The Council proposes a relatively simplistic approach which tries to broadly capture the breadth of the above schemes. An assumption of 15% has been adopted for external works across the typologies with the exception of typologies D and E i.e. A1-A5 retail and service uses and town centres offices.

Contingencies

9.10 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*.'

9.11 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 contingency of 3.75% of build costs be adopted.

Build Costs Over Time

9.12 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. The Development Viability Panel reported that costs are likely to continue to increase. Accounting for changes to costs and values over time is addressed in section 12.

Abnormal Build costs

9.13 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.'

9.14 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.

9.15 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.

9.16 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 factored into the preliminary assessment.

Professional Fees

9.17 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 appraisals and site specific viability appraisals.

Sales and Marketing

9.18 Commercial sales and marketing costs will vary according to different development types, broad market areas and in accordance with the strength of the market.

9.19 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

9.20 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

9.21 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.

9.22 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 suggested that only gradual rises in the base rate will occur over the next few years in line with the current market path, remaining consistent with absorbing slack and returning to inflation to the target within two years. [25]

9.23 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

9.24 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*

9.25 A range of evidence and guidance was reviewed in this regard and the Development Viability Panel was consulted.

9.26 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 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

9.27 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.

[25] Bank of England Inflation Report. May 2015

9.28 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.

	Definition and Use Class	Approximate Build duration (quarters i.e. 3 month tranches)
	A1 - Large supermarket	4
	A1 – small supermarket	3
	A1 - Retail warehouse	4
	A1 – mini supermarket	2
	A1 - A5- small retail/service	2
	B1a - Town Centre	3
	B1a - Out of centre	4
	B2 – Industrial/Manufacturing	3
	B1c/B8 light Industrial/distribution	4
	C1 hotel - out of centre	5
	D2 Leisure	5

Figure 28: Commercial Build Periods

10 PLANNING POLICY AND OBLIGATION COSTS

10.1 The following captures the emerging policies in the Northumberland Core Strategy (October 2015). Figure 29 captures all of the emerging Core Strategy policies and illustrates where there are clear direct viability implications. This does not suggest that the other policies have no relevance to viability but they are less directly relevant.

Policy Number	Policy Title	Directly or indirectly relevant to viability assessment
1	Sustainable Development	√
2	High Quality Sustainable Design	√
3	Spatial Distribution	√
4	Employment Land Supply and Distribution	√
5	Blyth Estuary Strategic Employment Area	
6	Home Run Businesses	√
7	Windfall employment development	√
8	Rural economy	
9	Tourism and visitor development	√
10	Hierarchy of centres	
11	Role of centres	
12	Commercial Centres	
13	Office accommodation within Commercial and Larger Village Centres	
14	Leisure facilities	
15	Housing provision – scale and distribution	√
16	Strategic Delivery Sites	√

17	Additional housing sites	
18	Planning for housing	√
19	Delivering affordable housing	√
20	Rural exception sites	
21	Housing for older people and vulnerable groups	√
22	Specialist Accommodation	√
23	Provision for Gypsy, Roma and Traveller communities	
24	Strategic approach to Green Belt	
25	Safeguarded land	
26	Uses acceptable in the Green Belt	
27	Expansion of employment or visitor related buildings in the Green Belt	
28	Principles for the environment	√
29	Biodiversity and Geodiversity	√
30	Landscape	√
31	Northumberland Coast Area of Outstanding Natural Beauty	√
32	North Pennines Area of Outstanding Natural Beauty	√
33	Historic environment and heritage assets	√
34	Heritage Assets at Risk	√
35	Water quality	√
36	Water supply and sewerage	√
37	Flooding	√
38	Sustainable Drainage Systems	√
39	Coastal erosion and coastal change management	√

40	Unstable and contaminated land	√
41	Promoting Sustainable Connections	√
42	Improving Northumberland's core road network	√
43	The effects of development on the road network	√
44	Rail transport and safeguarding facilities	√
45	Newcastle International Airport	
46	Ports, harbours and beach launch facilities	
47	Planning for mobile telecommunications	
48	Planning for broadband infrastructure	
49	Community services and facilities	√
50	Open space and facilities for sport and recreation	√
51	Green infrastructure	√
52	Environmental criteria for assessing minerals proposals	
53	Criteria for assessing the benefits of minerals proposals	
54	Mineral and landfill site restoration and after-use	
55	Safeguarding mineral resources	
56	Coal	
57	Aggregate minerals	
58	Clays	
59	Natural building and roofing stone	
60	Conventional and unconventional oil and gas	
61	Peat	
62	Safeguarding minerals related infrastructure	
63	Provision for waste re-use, recycling and recovery	

64	Waste disposal	
65	Renewable and low carbon energy development	
66	Onshore wind energy	
67	Solar photovoltaic farms	
68	Implementation	
69	Planning for Infrastructure	√
70	Planning Conditions and Obligations	√

Figure 29: Policies in the CS and their relevance to the viability assessment

10.2 Although the table above identifies policies with direct relevance to the Viability Assessment, the policies do not always equally apply to residential and non-residential development. They are therefore only being tested against the type of development to which they apply.

10.3 Notably, commercial development is not subject to many policy requirements with direct relevance for testing viability. The exception is in respect of sustainable design and construction, discussed further below.

10.4 The following explains the links between policies and how the policies have been appraised.

10.5 The Core Strategy spatial strategy seeks to focus the majority of new development in Northumberland's Main Towns and Service Centres. Additional large-scale development and growth will be focussed on key locations in: Blyth, Cramlington, Ashington and Morpeth. Directing growth to Main Towns and Service Centres generally correlates to where most demand for housing is. Focussing large scale growth in key locations similarly has a connection with where demand exists.

10.6 Notwithstanding the link between where development is being directed and market demand and housing need, the relative development values that can be achieved in those settlements is relevant to the Viability Assessment. Development value information has been collected and tested accordingly.

10.9 In respect of the Core Strategy objective to provide everyone with access to a decent and affordable home identifies that to ensure housing development helps to support positive growth, diversify the Northumberland economy and meet housing need; delivery of at least 24,320 additional dwellings over the plan period are required. This figure is further broken down by delivery per annum and according to Delivery Area.

The policy goes on to list criteria for housing development including ensuring an appropriate mix of housing types, sizes and tenure, encouraging the re-use of previously developed land, and achieving appropriate development density.

10.10 The Strategic Housing Land Availability Assessment appraises housing sites according to their suitability, availability and achievability. In part the SHLAA looks at the viability of sites and helps to demonstrate that the required additional dwellings are deliverable. The Viability Assessment provides further detail. Although the policy is not prescriptive, each of the criteria has been taken into account. For example the typologies have been carefully formulated to include a mix of house types and include elements of brownfield development.

10.11 A 30% affordable housing target had been the most commonly operating target of the former district planning policies, although there is variation including a 50% target in parts of the former Tynedale. The success of the policies has varied recently The Core Strategy highlights that delivering affordable housing is a key priority for the Council. As described in the draft Plan, the NPPF requires local planning authorities to identify the need for affordable housing and set policies to meet this need on-site or elsewhere when robustly justified, to create mixed and balanced communities.

10.12 The Council's Affordable Housing Viability Assessment had already tested the viability of the 30% target for affordable housing. The Viability Assessment of the Core Strategy has updated the previous work, for example with more up to date sales values. To analyse potential levels of affordable housing that may be delivered the viability assessment modelling tool was used to identifying the maximum achievable proportions of affordable housing.

10.13 Policy 21 sets out the Council's support for accommodation to meet the needs of older people and vulnerable groups in appropriate sustainable locations. Since the time of publishing the Full Draft Core Strategy new optional technical housing standards have been incorporated into the national Planning Practice Guidance. The Core Strategy does not include a policy to require the new space standards therefore costs have not been appraised. Any future planning policy introducing the requirements will be subject to viability testing.

10.14 The issue of surface water flooding has affected certain parts of the County and needs to be addressed. Sustainable Drainage Systems (SuDS) are the preferred method of addressing issues regarding surface water drainage within new developments. They serve either to increase the amount of rainwater dealt with by infiltration rather than as run-off; or SUDS can be designed to hold back excess or sudden water flows that cause flash flooding of land or sewer systems. Different

situations will call for different types of SuDS, according to their effectiveness and efficiency.

10.15 The Council has reviewed various research to investigate the potential cost of SuDs to new development. As with many features of good design, the costs of SuDS can be reduced or eliminated by embedding the principles as early as possible in the design process. Furthermore implementing SuDS may fulfil more than one purpose, such as forming part of a well-designed landscaping scheme or helping to meet other sustainability standards.

10.16 At the current time, local SuDs standards have not been proposed therefore a specific cost has not been attributed in the Viability Assessment. In any instance where SUDs are proposed, case studies from DEFRA indicate they may be 30% cheaper than traditional drainage to construct. For a challenging site SUDs are suggested as being 5% more expensive. This can only be determined on site specific basis.

10.17 Policy 38 provides the basis for ensuring that development is supported by suitable and accessible community facilities and amenities. In some situations new development will be required to provide or contribute to community facilities as part of the development, or if appropriate off-site, where no facilities exist or where existing facilities are deficient.

10.18 The Council reviewed a sample of Section 106 Agreements which, alongside CIL, would be the mechanisms by which developer contributions could be secured. Generally contributions for community facilities are not sought therefore it is not possible to derive a meaningful average contribution for this type of infrastructure. Instead a notional sum has been assumed for section 106 contributions and a notional CIL charge is similarly being tested.

10.19 The provision of recreational open space for outdoor sport, children's play, and less formal recreational activity will be sought, as necessary for new development. This requirement will be determined by assessed need and demand, applying locally defined standards where they exist.

10.20 As was the case for community facilities, the Council reviewed a sample of Section 106 Agreements which, alongside CIL, would be the mechanisms by which such contributions would be secured. It was not possible to derive a meaningful average contribution for this type of infrastructure as it was dependent upon a number of factors such as the size of development.

10.21 Importantly, delivery and, or contributions towards recreation and open space varied considerably according to location. This reflected the varying development plan policies of the former Districts. Notably, both the districts of

Wansbeck and Tynedale have Supplementary Planning Documents for sport and play. (see below for assumed section 106 costs).

10.22 The sustainable design and construction of new buildings and extensions to existing buildings has an important role to play in improving energy efficiency and achieving targets for a reduction in carbon emissions. The Plan aims to manage the prudent use of Northumberland's natural resources and make Northumberland resilient to climate change.

10.23 The BREEAM system is a credit based assessment system. As recognised in the Core Strategy each development proposal will have specific costs and the location and characteristics of the site will dictate the viability of achieving required standards. For one scheme the costs may be negligible whilst for another scheme costs may be more significant. Similarly the nature of a particular development may mean it cannot technically achieve certain credits. For some developments any additional cost will be negated by the end value of the development (usually the rental value) being higher.

10.24 The policy approach is accordingly flexibly worded allowing developers leniency where they can robustly justify why the required standards are not technically or financially viable. Associated costs of meeting BREEAM standards for non-residential development have therefore not been assumed for the purposes of the Viability Assessment.

10.25 The Implementation chapter of the Core Strategy explains the key mechanisms by which the Plan will be delivered including through the effective and timely delivery of infrastructure. Where there are known infrastructure and capacity constraints and these are identified as critical in the Infrastructure Delivery Plan (IDP) the Council will work with partners the find solutions to remove those constraints to ensure that development is delivered to meet the objectives and policies in the Core Strategy.

10.26 The timing and prioritisation of delivery of infrastructure will have regard to priority needs established through the Infrastructure Delivery Plan. Developer contributions for infrastructure will be collected through planning obligations and potentially through the Community Infrastructure Levy.

10.27 As discussed in section 14 of this report, a provisional rate of CIL has being tested as part of the Viability Assessment.

Other Considerations

Building Regulations

10.7 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. This was an ambitious target and significant progress has been made since, including many new technology innovations.

10.8 In April 2014 changes to Part L of the Building Regulations were introduced. These changes were an important step towards zero carbon. For new homes, the changes deliver a 6% improvement on 2010 standards across the build mix. Similarly a strengthening of carbon di-oxide targets for new non-domestic buildings deliver a 9% improvement on 2010 standards aggregated across the build mix. Further changes were proposed from 2016 in line with the zero carbon agenda, however in June 2015 it was announced that '*the government 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, recognising that existing measures to increase energy efficiency of new buildings should be allowed time to become established*'

Planning Obligations

10.9 In addressing some of the criteria of the above policies and addressing other matters to make development acceptable in planning terms, the use of obligations including Section 106 Agreements will continue to be necessary.

10.10 As identified in section 1 of this report, some existing planning obligation requirements will potentially be subsumed within the potential CIL. However, there will continue to be site specific requirements which will need to be addressed through planning obligations.

10.11 In determining a reasonably representative assumption for planning obligation costs, the Council reviewed a sample of schemes and their related Section 106 Agreements (see Appendix L). The evidence demonstrated 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 recognise that the 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 of a section 106 payment of £500per dwelling will represent a cautious approach. Many schemes do not have any 106 payments attached.

10.12 A provisional test which looks at a CIL rate of £50 per m^2 has been applied to show the potential impact of the introduction of a CIL.

Cumulative Impacts

10.13 Considering the cumulative impact of the plan policies, rather than treating policies in isolation or overlooking the potential impact of policies, is a key principle of the Viability Assessment approach.

10.14 The National Planning Policy Framework 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.'*

10.15 The Viability Assessment modelling is a valuable tool to enable this analysis of each of the above policy and obligation requirements alongside one another, but also alongside future and existing requirements.

Future standards, documents and policies

10.16 Section 2 of this report highlights that the Assessment will also 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

10.17 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.

10.18 The Core Strategy Submission Document will identify which of the policies of the Framework will be superseded by the emerging Core Strategy. Before such time, an initial broad brush analysis of all of the policies has been undertaken. Appendix M provides a summary of the analysis.

10.19 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.

10.20 It is important to recognise, as reflected in Figure 29, that some more strategic level policies such as those setting out good planning principles generally do not have direct implications for viability.

10.21 Where there are site specific 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. The Assessment is intentionally high level looking at broad viability across the County. The Assessment does not attempt to establish costs to cover every possible eventuality or to look at specific sites.

10.22 The analysis concludes that there are no policies or requirements which are likely to represent costs or burdens over and above what is being assessed as part of the Viability Assessment of the Core Strategy. 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 and more out of date. The relative cost can accordingly become increasingly inconsequential.

11 LAND VALUES

11.1 Section 4, illustrates the Residual Land Value equation and briefly touches upon the approach to determining land values for the purposes of a whole plan viability assessment. It also discusses using 'Threshold Land Values' as a means of interpreting the results of the residual land value equation, to know whether or not development is viable. The threshold land value is the value at which a land owner would be typically willing to sell their site. Ultimately, a value lower than this 'threshold' will mean landowners' typical 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 a better value.

11.2 The Harman Guidance advocates a particular approach to identifying Threshold Land Values. It recommends that Threshold Land Values should be based on a premium over existing use values, and credible alternative use values.

11.3 Existing use value is the value of land in its current use before planning consent is granted. Alternative use values are the values associated with any other potential realistic use for the site. Alternative use values are however acknowledged to be mostly 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. 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.

11.4 The guidance goes on to recommend 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. A benefit of this approach is that different levels of premium can be tested. The approach is also importantly "*in line with reference in the NPPF to take account of a "competitive return" to a willing land owner*".

11.5 In essence, for a site to be viable, the 'premium' or margin above the existing or alternative use value must demonstrated to be enough to incentivise a landowner to sell their land.

11.6 The RICS Guidance favours a different approach to that advocated in the Harman Guidance. It advocates using market values, subject to the assumption that the value has regard to development plan policies and all other material planning consideration and disregards that which is contrary to the development plan.

11.7 In considering this market value approach the Council first sought to identify a range of market land values to share with the Development Viability Panel. Very little evidence had been collected at this stage but it was a means of stimulating discussion as to how land values should be approached and what kind of values would be expected in Northumberland.

11.8 Some members of the Development Viability Panel agreed with the market value data put forward. Some members of the Panel considered that the market values were particularly high. Some members of the Panel requested that Threshold Land Values be determined more simply based on 20-25% of the gross development value. This is a recognised approach to determining threshold land values, but is not advocated in the Harman Guidance. The Council considers this level of land value to be too high based on professional knowledge and viability assessments of recently delivered schemes. Moreover, it is considered the approach is not well suited to a whole plan viability assessment. However, the Council considered that threshold land values would be calculated as a percentage of the estimated Gross Development Value as a sense check, albeit the Council maintains that it considers 20%-25% to be too high.

11.9 The Harman Guidance warns that using market values carries *'the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy*". This was a point raised with Panel members and was a key issue in the examination on the Mayor of London's CIL charging schedule in late 2011. The Mayor had adopted an approach of existing use value (EUV) plus a premium. Certain objectors suggested that 'Market Value' was more appropriate as a benchmark. The Examiners conclusions reflected the risks flagged up by the Harman Guidance which recognises that: *"The market value approach…. while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context." (para 8)* and that "*I don't believe that the EUV approach can be accurately described as fundamentally flawed*" (para 9). In his concluding remarks, the Examiner points out that in light of the CIL *"the price paid for development land may be reduced*. *As with profit levels there may be cries that this is unrealistic, but a reduction in development land value is an inherent part of the CIL'.*

11.10 Whilst the case specifically relates to setting a CIL charge it is also relevant to considering whole plan viability. Despite the apparent differences of opinion and guidance, most acknowledge that an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements and potentially CIL will have an impact on land value. The expectation expressed by the government in introducing the ability to charge CIL is that land owners expectations should be

moderated to take into account all development costs including those associated with planning policies.

11.11 In light of the recognised difficulties in using the market value approach advocated in the RICS Guidance, the Council chose to adopt the approach to Threshold Land Values recommended in the Harman Guidance, that is: to look first to existing use values and to identify an appropriate premium above those values that would persuade a land owner to sell. However, data gathered about market values has been used as an indicator as to whether the identified premium reflected known market realities.

11.12 The Council acknowledges that land values are influenced by many factors. For the purpose of a whole plan viability assessment it is necessary to make assumptions of what would typically be accepted.

A Review of Threshold Land Values by the District Valuer Service (DVS)

11.13 Recognising that land values are a key component of the viability assessment, and Threshold Land Values are not straightforward, the Council appointed the District Valuer Service (DVS) to critically review it's approach and assist in determining an appropriate Threshold Land Value.

11.14 The DVS identify that there are two key publications which offer guidance, however they are somewhat contradictory. The comment on each publication as follows:

Financial viability in planning (August 2012) by the Royal Institution of Chartered Surveyors (The RICS Guidance):

11.15 Para 2.5.2, Box 10, "…nature of the applicant should normally be disregarded as should the benefits or disbenefits that are unique to the applicant."

11.16 Thus, appraisals should be done assuming hypothetical, typical landowners and developers and the views and aspirations of the actual owner are not relevant if these views differ from general market practice.

11.17 Para 2.3.2, Box 7, "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."

11.18 As indicated above, 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).

11.19 Para 2.1.2 “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.”

11.20 This appears to support the above 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 Current Use Value (CUV), stating:

11.21 Para 3.4.4 “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.”

11.22 This seems to support the view of setting a TLV for development appraisals, which is to somehow be linked to the Current Use Value (“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 greenfield land, where the CUV may only be £5,000 - £10,000 per acre and clearly a TLV only slightly above the CUV would not represent a sufficient incentive for a landowner to sell for development.

Viability Testing Local Plans (June 2012) by the Local Housing Delivery Group (The Harman Guidance).

11.23 Pg 29 “We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use value (noting the exceptions below)”

11.24 This therefore contradicts the guidance provided by the RICS, where adopting a percentage uplift above the CUV is not recommended.

11.25 One of the exceptions referred to relates to “non-urban” and “greenfield” sites. Pg 30 “ It is widely recognized 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”.

11.26 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 his/her site is without the planning permission applied for, and then judge by how much, if at all, the CUV increases when planning consent is granted. The difference is that, for urban brownfield sites a premium uplift of circa 25 – 50% of the CUV may be deemed sufficient to incentivise a landowner to sell (e.g. if the CUV

is £100,000 per acre, applying a 50% uplift would mean a TLV of £150,000 per acre, which would be attractive to a landowner). 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.

11.27 In terms of how to evidence the approach to greenfield sites the document goes on to say: Pg 30 "…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".

11.28 Pg 30 "…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".

11.29 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.

11.30 In summary, a TLV can be regarded as being effectively the average price that an average 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.

11.31 The valuation process to identify this 'reasonable' price involves the surveyor in judging where the value of the site would be 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 Current Use Value (CUV) or any Alternative Use Value (AUV), should one be available.

11.32 Settling on this 'reasonable' land value in an appraisal is not therefore straightforward and the guidance is 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.

Core Strategy and CIL Viability Assessment Interim Report, December 2014

11.33 In its interim report, the Council sought to follow the Harman Guidance and adopt an approach of identifying a premium over and above existing use value and alternative use value.

11.34 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 future land supply, such as the sites in the SHLAA. Current use values and levels of premium meanwhile drew on a range of information as follows:

- Local knowledge and expertise
- An overview of the type of land owners in the County
- An overview of development land supply
- Market analysis and report

11.35 Land in existing use for agriculture was identified as making up a significant proportion of future housing land in Northumberland.

11.36 A desk based analysis using various web resources helped to identify agricultural land currently 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 (£ per acre).

11.37 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 highlights average farmland values of around £7,517 per acre or £18,566 per hectare. It identifies the strong growth in agricultural land values, up 17% in 12 months and 56% in five years. Demand is also described as being buoyant, particularly from investors.

11.38 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.

11.39 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[26] and some areas have regained pre-recession rates. Values of around £105,200 per acre or £260,000 per hectare were provisionally identified.

11.40 A premium of 10% on top of existing use value was first considered as a potential level of uplift in value. This was supported by a number of appeal decisions and viability assessments done elsewhere.

11.41 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

11.42 As described in National Planning Practice Guidance '*estimated values should 'be informed by comparable, market-based evidence wherever possible*.' warning 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

11.43 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 relate to particularly high value schemes, considered to be significantly above the market norm. The advertised rates also have to be treated with caution as the price advertised may not be the price achieved.

11.44 The next step was to identify development sites with planning consent and determine the value achieved when they were purchased.

11.45 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.

11.46 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

[26] Lambert Smith Hampton – Industrial and Logistics Market 2013

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.

11.47 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.

11.48 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'.

11.49 Professional judgement and knowledge of the individual sites was therefore 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).

11.50 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 is considered the value represents 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'.*

11.51 In view of comments received from the Panel in relation to the complexities and conflicting advice regarding calculation of Threshold Land Values, the DVS was appointed to undertake further analysis and advise on appropriate Threshold Land Values to support the Viability Assessment.

11.52 The DVS's approach to TLV's looked to a variety of evidence sources 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.

11.53 Bullet points 1 – 4 above provided direct evidence sources on actual TLVs, and therefore it is easier to make a direct comparison. However, assessing actual land sales for the purposes of identifying a TLV is not straight forward, as the price someone is willing to pay for a piece of development land (and indeed accept for a piece of development land) is subject to many factors, which includes:

- 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.

11.54 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.

11.55 In this respect, land transactions are useful in providing a 'sense check' but they should not be regarded a 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. Land sales should be considered after the other sources of evidence identified as a sense check.

11.56 It should be noted, when assessing the evidence and considering appropriate TLVs the DVS looked to distinguish between greenfield and brownfield sites, for the reasons outlined previously.

<u>Direct TLV evidence identified: Greenfield sites</u>

11.57 The DVS identified the following TLVs for greenfield sites, identified from viability appraisals received from applicants. For the purposes of the exercise they have

looked at TLVs for greenfield sites across the North East of England, Yorkshire and the East Midlands. Whilst a large geographical area this was considered to give a good indication of how TLVs for greenfield sites remain relatively consistent across regions (for confidentiality reasons full details of each case is not given):

1. Medium value area near to Leeds, West Yorkshire – greenfield site, net acreage 15.99 acres, proposal for 181 dwellings. Abnormals circa £135,000 per net acre. Average house price £1,888 per sq m. January 14 a regional developer submitted a viability appraisal, indicating a TLV equivalent to £275,000 per net acre (£232,000 per gross acre).
2. Low value area near The Wash, Lincolnshire – greenfield site, net acreage 3.77 acres, proposal for 48 dwellings. Abnormals circa £87,000 per net acre. Average house price £1,733 per sq m March 14 a regional house builder submitted a viability appraisal, indicating a TLV equivalent to £250,000 per net acre (£181,599 per gross acre).
3. Medium value area North Yorkshire, commutable to Leeds – greenfield site, net acreage 19.94 acres, proposal for 179 dwellings. Abnormals circa £168,000 per net acre. Average house price £1,977 per sq m April 14 a national house builder submitted a viability appraisal, indicating a TLV equivalent to £200,000 per net acre (£149,587 per gross acre).
4. Low value area South Yorkshire – greenfield site, net acreage 6.82 acres, proposal for 97 dwellings. Abnormals circa £22,000 per net acre. Average house price £1,391 per sq m. June 14 a national house builder submitted a viability appraisal, indicating a TLV equivalent to £88,000 per net acre (£80,667 per gross acre).
5. Medium value area North Yorkshire, commutable to Leeds – greenfield site, net acreage 8.82 acres, proposal for 103 dwellings. Abnormals circa £165,000 per net acre. Average house price £1,842 per sq m. June 14 a regional house builder submitted a viability appraisal, indicating a TLV equivalent to £115,000 per net acre (£100,000 per gross acre).
6. Medium value area West Yorkshire – greenfield site, net acreage 22.70 acres, proposal for 166 dwellings. Abnormals circa £239,000 per net acre. Average house price £1,923 per sq m Sept 14 a national house builder submitted a viability appraisal, indicating a TLV equivalent to £255,500 per net acre (£192,048 per gross acre).
7. Low value area West Yorkshire – greenfield site, net acreage 20.93 acres, proposal for 283 dwellings. Abnormals circa £70,000 per net acre. Average house price £1,587 per sq m. Nov 14 a national house builder submitted a viability appraisal, indicating a TLV equivalent to £119,000 per net acre (£108.055 per gross acre).
8. Low value area in Derbyshire – greenfield site, net acreage 5.31 acres, proposal for 61 dwellings. Abnormals circa £63,000 per net acre. Average house price £1,718 per sq m. Jan 15 a national house builder submitted a

viability appraisal, indicating a TLV equivalent to £226,000 per net acre (£223,892 per gross acre).

9. Medium value in West Yorkshire - greenfield site, net acreage 39.73 acres, proposal for 560 dwellings. Abnormals circa £60,000 per net acre. Average house price £2,099 per sq m. April 15 a national firm of chartered surveyors submitted a viability appraisal, indicating a TLV equivalent to £250,000 per net acre (£157,934 per gross acre).
10. Medium value in West Yorkshire - greenfield site, net acreage 3.13 acres, proposal for 42 dwellings. Abnormals circa £287,000 per net acre. Average house price £2,152 per sq m. Mar 15 a national house builder submitted a viability appraisal, indicating a TLV equivalent to £147,000 per net acre (£125,713 per gross acre).
11. High value area in West Yorkshire – greenfield site, net acreage 8.65 acres, proposal for 84 dwellings. Abnormals circa £88,000 per gross acre. Average house price circa £1,958 per sq m (please note DVS argued this should have been in excess of £2,500 per sq m given the high value area). May 15 a national house builder submitted a viability appraisal, indicating a TLV equivalent to £180,000 per gross acre (net acreage unknown).
12. Low value area in Lincolnshire – greenfield site, net acreage 7.91 acres, proposal for 108 dwellings. Abnormals circa £205,000 per net acre. Average house price £1,629 per sq m. June 15 a regional house builder submitted a viability appraisal, indicating a TLV equivalent to £125,000 per net acre (£112,084 per gross acre).

11.58 The DVS referred to the fact that when submitting a viability appraisal it is in the interests of the applicant to adopt a higher TLV, as this will help to justify a reduction in the affordable housing provision or help negotiate other reduced requirements. It was therefore suggested that the above figures are likely to naturally 'on the high side'.

11.59 Based on the above sample of 12 identified TLVs the average equates to £153,631 per gross acre, ranging from £80,667 per gross acre to £232,000 per gross acre.

11.60 More specifically, in the areas considered to be 'low value' (which we have defined as being areas where average values are sub £1,750 per sq m), the average across the sample of 5 TLVs equates to £141,259 per gross acre. For the 6 'medium value' sites (average dwelling values between £1,750 and £2,250 per sq m) the average increases to £159,057 per gross acre. The only 'high value' site (average house prices in excess of £2,250 per sq m) equates to £180,000 per gross acre.

11.61 Although not a definitive source of information, this at least gives a general indication of the levels of TLVs being applied by developers / house builders to greenfield sites across the wider regions in viability appraisals (albeit with the acknowledgement that these figures are likely to be on the high side). It therefore

stands to reason that TLVs within an area such as Northumberland (not considered to be vastly different in terms of the types of houses being provided and the values achieved to Yorkshire and the East Midlands) should certainly not exceed the upper end of this range.

11.62 In terms of further sources of information, the DVS also identified TLVs negotiated between DVS and applicants when assessing individual viability appraisals and also TLVs assessed as part of planning appeals. Again scheme details are not disclosed for reasons of confidentiality.

1. Medium value area near to Leeds, West Yorkshire – greenfield site, gross acreage 15.99 acres, proposal for 181 dwellings. Abnormals circa £135,000 per net acre. Average house price £1,888 per sq m. January 14 a regional developer submitted a viability appraisal, indicating a TLV equivalent to £275,172 per net acre (£232,000 per gross acre). Following various discussions / negotiations a TLV of circa £217,000 per net acre (£183,000 per gross acre) was agreed by both DVS and the applicant for the purposes of the viability modelling.

2. Low value area in Lincolnshire – greenfield site, net acreage 27.75 acres, proposal for 500 dwellings. Abnormals circa £176,000 per net acre. Average house price £1,649 per sq m. In June 2014, following various discussions / negotiations a TLV of circa £150,000 per net acre (£112,500 per gross acre) was agreed by both DVS and the applicant (a regional developer) for the purposes of the viability modelling.

3. High value area in Derbyshire – greenfield site, net acreage 6.89 acres, proposal for 62 dwellings. Abnormals circa £117,000 per net acre. Average house price £2,316 per sq m. In Aug 2014, following various discussions / negotiations a TLV of circa £138,000 per net acre (£88,531 per gross acre) was agreed by both DVS and the applicant (a regional developer) for the purposes of the viability modelling.

4. Low value area in South Yorkshire – greenfield site, net acreage 4.55 acres, proposal for 58 dwellings. Abnormals circa £56,000 per net acre. Average house price £1,513 per sq m. In Jan 2015, following various discussions / negotiations a TLV of circa £100,000 per net acre (£85,248

per gross acre) was agreed by both DVS and the applicant (a national house builder) for the purposes of the viability modelling.

5. Medium value area on edge of suburban settlement near Nottingham – greenfield site, net acreage 10.72 acres, proposal for 116 dwellings. Abnormals circa £89,000 per net acre. Average house price £1,929 per sq m. Planning Appeal Hearing May 2015. Ahead of the hearing both DVS and the applicant (the landowner) agreed a TLV equivalent to £107,000 per net acre (£93,043 per gross acre).

6. High value area, large strategic site in North Yorkshire – greenfield site, gross area circa 126 acres. Proposal for 900 dwellings. Abnormals and infrastructure circa £250,000 per gross acre. Average house price £2,315 per sq m. Viability negotiations currently ongoing. Applicant proposed TLV equivalent to £210,000 per gross acre. DVS arguing that a figure of £170,000 per gross acre (taking into account the high abnormal and infrastructure costs) is more appropriate. Negotiations are ongoing but the half-way point between the 2 is considered to be a reasonable assumption, being £190,000 per gross acre.

11.63 Based on the above sample of 6 identified TLVs established through negotiation the average equates to £125,387 per gross acre, ranging from £85,248 per gross acre to £190,000 per gross acre. The average is a circa 18% reduction from TLVs taken directly from applicant's viability appraisals.

11.64 More specifically, for 'low value' sites the average TLV equates to £98,874 per gross acre, increasing to £138,022 per gross acre for the 'medium value' sites and £139,266 per gross acre for the high value sites.

11.65 Whilst a smaller sample, it does appear to show that the TLVs that have been negotiated and agreed between DVS and the applicant are generally at a lower level than the unchallenged TLVs put forward by developers / house builders. This supports the general view that TLVs submitted by applicants tend to be on the high side.

11.66 Finally, in addition to the above the DVS also considered TLVs identified by private practice chartered surveyors in CIL / general area wide studies undertaken on behalf of local authorities. Again, these were considered from a broader region, to include Yorkshire and the East Midlands, as follows:

- Durham County Council Affordable Housing & CIL Viability Study – undertaken by HDH Planning in September 2012. For greenfield sites, the report assumes an average TLV equivalent to £111,291 per gross acre.

- Leicester, Leicestershire & Rutland CIL Viability Study – undertaken by HDH Planning, dated January 2013. For greenfield sites, the report assumes an average TLV equivalent to £112,809 per gross acre.

- North York Moors National Park Authority CIL Economic Viability Assessment – undertaken by Peter Brett Associates, dated November 2013. The report doesn't appear to distinguish between greenfield and brownfield sites. For moderate value areas a TLV equivalent to £303,521 per net developable acre (so likely to be £250,000 to £275,000 on a gross acre basis). For high value areas this increases to £364,225 per net acre (so again on a gross basis more likely to be £300,000 - £325,000 per gross acre).

- The Leeds Community Infrastructure Levy Economic Viability Study – undertaken by GVA in January 2013. For greenfield sites, the report assumes a TLV of £100,000 per gross acre (however it is understood this has since been updated)

- North East Lincolnshire Local Plan and CIL Viability Assessment – undertaken by GVA, dated September 2013. For greenfield sites the assessment adopts the approach of identifying an average agricultural land value, which is assessed as being £7,062 per acre. A premium above this CUV of 10 to 20 times this amount is then referenced (giving a TLV range of £70,620 per gross acre to £141,240 per gross acre). The middle point of this range is then adopted as essentially being the average TLV for a greenfield site - £105,930 per gross acre.

- Selby CIL Addendum Report – undertaken by Peter Brett Associates in April 2014. The report doesn't appear to distinguish between greenfield and brownfield sites. For low value areas a TLV equivalent to £182,113 per net developable acre (so likely to be sub £150,000 on

a gross acre basis). For medium value areas this increases to £263,051 per net acre (so again on a gross basis more likely to be £200,000 - £225,000 per gross acre). For high value areas this increases to £364,225 per net acre (so more like £300,000 - £325,000 on a gross basis per acre).

- Carlisle City Council Local Viability Study – undertaken by HDH Planning in July 2014. For greenfield sites assumed a TLV of £133,549 per gross acre.

- Leicester City Council CIL Viability Study Update – undertaken by HDH Planning in December 2014. For greenfield sites assumed a TLV range of £113,314 per gross acre (£280,000 per gross Ha) to £125,455 per gross acre (£310,000 per gross Ha).

11.67 Of the 8 studies referenced, 6 suggest a greenfield TLV range of between £100,000 and £133,549 per gross acre, with an average of £113,827 per gross acre. These 6 studies were undertaken by 2 different market practitioners, 1 being GVA (a national firm of chartered surveyors), the other being HDH Planning and Development (). GVA undertook 2 of the studies in Leeds and North East Lincolnshire, HDH Planning undertook the remaining 4 in Durham, Leicestershire (inc Rutland) and Carlisle. Despite these studies being undertaken by 2 different firms from different market sectors, and covering a large geographical area, both are broadly in agreement as a suitable average TLV for a greenfield site, being somewhere in the order of £100,000 to £135,000 per gross acre.

11.68 However, the conclusions reached in the North York Moors and Selby studies (undertaken by Peter Brett Associates) are significantly different. Both provide a range of figures (and it should be noted these are based on net developable areas, so are naturally higher rates per acre than the gross figures). Equally, there appears to be no distinction between greenfield and brownfield sites, therefore there is a risk the figures are 'skewed' when being compared to the conclusions of the other studies (as we have only presented the conclusions on the greenfield sites for the other studies). Notwithstanding this, for medium value areas, with the DVS's assumed adjustments of net to gross, the suggestion seems to be that TLVs in the region of £200,000 - £275,000 per gross acre are appropriate. For high value areas this range increases to broadly £300,000 - £325,000 per gross acre.

11.69 The differences in conclusions between GVA and HDH Planning when compared with Peter Brett Associates highlights the difficulties in assessing TLVs. However, having considered the other evidence the DVS concluded that the average figures presented by GVA and HDH Planning appear to be more in line with general average TLVs identified above than the conclusions of Peter Bretts.

11.70 Concluding the DVS identified that TLV will fluctuate on a site by site basis depending on the abnormal costs of development, impact of Council policies etc. However there are some broadly accepted 'norms' or range of norms.

11.71 It was also noted that quantum is likely to play a role on larger schemes (i.e. to reflect the fact a developer would effectively be buying in 'bulk', the TLV for large sites (in particular strategic sites) should be discounted on a price per acre basis.

11.72 Based on the above evidence, and excluding significantly large scale sites which would be expected to be discounted, the DVS recommended the following average TLVs for greenfield sites to be appropriate in Northumberland:

Low value area – £100,000 to £130,000 per gross acre.

Medium value area – £130,000 to £150,000 per gross acre.

High value areas – £150,000 to £200,000 per gross acre.

11.73 The above range is therefore broadly supports the suggested range as presented in the Northumberland Core Strategy & CIL Viability Assessment: Interim Report Dec 2014 (which test TLVs at circa £113,000 per gross acre and £202,000 per gross acre.

11.74 As a 'sense check' as recommended in the Harman guidance the DVS subsequently reviewed market transactions to determine whether these suggested figures reflect what is happening the market – see section ??

Direct TLV evidence identified: Brownfield sites

11.75 The DVS identified the following TLVs for brownfield sites, identified from viability appraisals received from applicants. For the purposes of this exercise the DVS looked at TLVs for brownfield sites again across the North East of England, Yorkshire and the East Midlands. Whilst a large geographical area this gives a good indication of how TLVs for brownfield sites are assessed in other regions. Please note these were limited the data to schemes providing 50 or more residential units:

1. Low value area Lincolnshire – former garage, gross acreage 2.82 acres, proposal for 55 dwellings. Abnormals circa £71,500 per net acre. Average

house price £1,660 per sq m. December 13 a regional developer submitted a viability appraisal, indicating a TLV equivalent to £344,000 per gross acre).

2. Low value area South Yorkshire – former industrial facility, cleared. Gross acreage 4.05 acres, proposal for 60 dwellings. Abnormals circa £289,000 per net acre. Average house price £1,560 per sq m. June 14 a regional house builder submitted a viability appraisal, indicating a TLV equivalent to £111,000 per gross acre).
3. Medium value area West Yorkshire – existing industrial buildings. Gross acreage 3.59 acres, proposal for 65 dwellings. Abnormals circa £217,500 per net acre. Average house price £1,950 per sq m. Jan 15 a local landowner submitted a viability appraisal, indicating a TLV equivalent to £264,600 per gross acre).
4. Medium value area West Yorkshire – cleared former industrial works. Gross acreage 4.77 acres, proposal for 68 dwellings. Abnormals circa £246,600 per net acre. Average house price £1,750 per sq m. Jan 15 a regional firm of chartered surveyors submitted a viability appraisal, indicating a TLV equivalent to £339,660 per gross acre).
5. Low value area South Yorkshire – former colliery. Gross acreage 39 acres, proposal for 325 dwellings. Abnormals circa £99,800 per net acre. Average house price £1,650 per sq m. Jul 14 a regional landowner submitted a viability appraisal, indicating a TLV equivalent to £58,900 per gross acre).
6. High value area West Yorkshire – former quarry. Gross acreage 55 acres, proposal for 363 dwellings. Abnormals circa £508,000 per net acre. Average house price £2,350 per sq m. Jan 12 a national firm of chartered surveyors submitted a viability appraisal, indicating a TLV equivalent to £264,500 per gross acre).
7. Medium value area Derbyshire – former airfield. Gross acreage 97 acres, proposal for 367 dwellings. Abnormals circa £105,000 per net acre. Average house price £2,100 per sq m. May 14 a regional developer submitted a viability appraisal, indicating a TLV equivalent to £69,200 per gross acre).

8. Low value area Derbyshire – existing industrial complex. Gross acreage 44.5 acres, proposal for 600 dwellings. Abnormals circa £66,000 per net acre. Average house price £1,660 per sq m. Mar 15 a national firm of chartered surveyors submitted a viability appraisal, indicating a TLV equivalent to £206,750 per gross acre).

11.76 Of the sample of 8 brownfield TLVs identified the average equates to £207,326 per gross acre. However, the range of TLVs is significantly broader than the greenfield data, ranging from £58,900 per gross acre to £344,000 per gross acre. One of the key drivers for this variance is due to the different CUV's for each site. For example, where the current use of a site is as a quarry, which is considered to be redundant, clearly the underlying value of the land based on the existing planning consent will be significantly lower than say an existing employment site with occupied buildings in situ providing industrial accommodation.

11.77 Furthermore, the variance between CUVs for brownfield sites across different locations is also considered to be higher than for greenfield sites. Agricultural land values remain relatively consistent across regions, therefore the underlying CUV of a greenfield site will not be subject to any significant change across low, medium and high value areas. In contrast, the CUV's for brownfield sites are likely to vary more significantly. For example, a prime serviced industrial site (with good links to the motorway network) may have a CUV of £300,000 - £400,000 per acre. A tertiary industrial site, with poor access to the motorways, may only have a CUV of sub £100,000 per acre. Whilst perhaps an extreme example, it highlights the potential for variance in brownfield site TLVs.

11.78 Equally, the DVS's experience is that the AUV is likely to play a bigger role on brownfield sites than on greenfield sites. For example, a brownfield site in an old industrial area may be viewed as having potential for longer term regeneration, therefore other employment uses (offices, retail, leisure etc) may need to be factored into the TLV (which may have a significantly higher value). This, in some cases, may significantly increase the TLV for a brownfield site.

11.79 For these reasons, the method of establishing a CUV and then adding some level of incentive uplift (which in the experience of DVS tends to be an uplift of between 10% and 30%), alongside an assessment of any credible AUV, can produce a wide range of TLVs for brownfield sites. It is therefore difficult to provide one or two overall averages across an area for brownfield sites, because the CUV / AUV of each site will need to be rigorously assessed before any meaningful conclusion is made.

11.80 In this regard, the DVS considered the conclusions drawn on suitable brownfield TLVs from other area wide studies (please note the DVS excluded the Peter Brett reports referenced above, on the basis that these reports do not give explicit figures for brownfield sites, they only provide a combined average for greenfield and brownfield sites. Furthermore, the GVA reports are similarly not referenced as it was unclear what TLVs have been applied to brownfield sites):

- Durham County Council Affordable Housing & CIL Viability Study – undertaken by HDH Planning in September 2012. For brownfield sites, the report assumes an average TLV range (based on the CUV + 20%) of £145,690 to £242,817 per gross acre (depending on the nature of the current use and location).

- Leicester, Leicestershire & Rutland CIL Viability Study – undertaken by HDH Planning, dated January 2013. For brownfield sites, the report assumes an average TLV (based on the CUV + 15%) of £139,620 per gross acre (considered appropriate for industrial sites across a variety of locations).

- Carlisle City Council Local Viability Study – undertaken by HDH Planning in July 2014. For brownfield sites, the report assumes an average TLV (based on the CUV + 20%) of £169,972 per gross acre (considered appropriate for industrial sites across a variety of locations).

- Leicester City Council CIL Viability Study Update – undertaken by HDH Planning in December 2014. For brownfield sites, the report assumes an average TLV range (based on the CUV + 20%) of £169,972 to £213,679 per gross acre (depending on the nature of the current use and location).

11.81 Taking the mid-point of the ranges (where applicable) the above shows an average TLV for a brownfield site of £173,918 per gross acre, circa 17% below the average shown from unchallenged viability assessments received from developers / house builders. However, as shown in some cases a range is deemed appropriate, recognising the significant potential 'swing' in TLVs depending on locational factors and the existing uses.

11.82 It is therefore difficult to draw any firm conclusions from the data assessed, and the DVS stressed that it is less reliable to establish an average TLV for brownfield sites than greenfield sites due to the potential variance in CUVs and greater impact of locational factors. That said, based on the evidence identified the Council's average TLV figure for brownfield sites of £105,200 per gross acre (as shown in the

Northumberland Core Strategy & CIL Viability Assessment: Interim Report Dec 2014) appears on the low side.

11.83 However, the evidence identified is related to other market locations, and as indicated above when assessing brownfield sites locational factors are even more important when assessing appropriate TLVs.

11.84 In line with Harman Guidance the DVS subsequently assessed market transactions to provide a further insight into the local market.

Market transactions

11.85 As indicated above, in addition to the 'direct' TLV evidence identified above, the DVS also looked to analyse actual land transactions as part of our considerations. As highlighted previously, comparing land transactions can be extremely difficult due to the unique nature of development sites, and therefore this evidence should be assessed carefully and only used as a general 'sense check'. It also builds in the risk of taking account of land values based on current planning policies rather than the emerging policies of the Core Strategy. Future planning policies will have an impact on land values and land owner expectations.

11.86 The Council sourced some basic details of a sample of transactions it was aware of. The exercise demonstrating that even sourcing the transactions can be complex.

11.87 The DVS was instructed to review the transactions identified by the Council, establish further details (where possible) and provide comments but also to identify any additional relevant transactions.

11.88 In reviewing the transactions identified by the Council the DVS undertook a data gathering exercise where they looked to establish the full facts (as far as possible) of each transaction. This has enabled categorisation of each sale as either being (i) not sufficiently comparable for the purpose of identifying current TLVs (ii) of relevance to establishing current TLVs

(i) Not sufficiently comparable for the purpose of identifying current TLVs

11.89 When considering any comparable transactional evidence the RICS Guidance is clear that the sale should ideally be as close to the date of valuation as possible. Clearly, though, this is not always practical and often transactions from a number of months (or even years) prior to the date of valuation can be legitimately analysed by a

surveyor, providing adjustments are made to ensure the prevalent market conditions are reflected.

11.90 There comes a point when a transaction was so historic (when demand levels etc were so different to the current market conditions) that no meaningful analysis of the data can take place. For example, prior to 2008 the residential market experienced a boom period where house prices enjoyed high and sustained capital growth over a number of years. As a consequence, demand for land from developers / house builders was buoyant (even for sites which, with hindsight, were in more secondary and even tertiary locations). Bank funding was also easier to secure, which meant there were a high proportion of smaller developers looking to enter the residential development market. This high level of competition for land ultimately drove higher land values, and as the market continued to rise the 'gap' (in value terms) between purely speculative acquisitions and subject to planning deals also narrowed. The consequence of all these factors was that high 'rates per acre' were being achieved for sites, both on deals subject to planning and speculative purchases. In contrast, the current climate is a lot more cautious. Whilst there have been tentative improvements in the residential market in recent years, funding institutions are still generally taking a cautious approach to the sector. There is also generally little appetite from house builders to acquire land on a speculative basis therefore the 'gap' between subject to planning deals and 'no planning' sales remains significant. In this respect, trying to compare a land transaction from prior to the crash in 2008 (for example) to today's climate is extremely difficult and in reality no firm conclusions could be drawn from any comparisons made given the difference in market conditions.

11.91 In terms of determining an appropriate 'cut off' for assessing land transactions there is no fixed rule, and in reality a surveyor will have to make their own judgement. In this instance we have taken the view that any transaction from prior to August 2010 (i.e. over 5 years from the date of this report) is so historic and taken from a period when market conditions were so different that no meaningful comparison can be made from the evidence when looking to identify current TLVs.

(i) Of relevance to establishing current TLVs

11.92 Further to discounting transactions determined to be of limited usefulness this leaves 10 transactions identified as being or relevance to establishing current TLVs.

Address	Location	Land type	Planning consent when	Gross area	£ per gross

			bought?	(acres)	acre
Willoughby Bank	Alnwick	Greenfield	Yes	7.76	92,552
Slaley Court	Bedlington	Greenfield	No	4.50	125,500
Wheatridge Farm	Seaton Delaval	Greenfield	Yes	17.30	108,571
Broadway House Farm	Bedlington	Greenfield	Unknown	11.32	133,825
Benridge Park	Newsham, Blyth	Greenfield	Unknown	16.67	77,638
Runnymede Rd	Ponteland	Greenfield	No	5.40	195,370
The Braid	Amble	Part brown / part green	Yes	9.14	765,864
North Rd	Ponteland	Brownfield	Yes	3.55	1,243,000
Bank Top	Prestwick	Brownfield	No	4.45	100,090
Seafield	Seahouses	Brownfield	Yes	0.53	562,303

Figure 30: Relevant land transactions in Northumberland to establishing a TLV

11.93 The DVS commented on the transactions as follows:

- Land at Willoughby's Bank, Alnwick – the information provided by the Council related to the purchase of Phase 1 only (July 2013). We have also since been able to identify the acquisition of the neighbouring Phase 2 land in Oct 2014. Phases 1 and 2 added together give a site area of 3.14 ha (or 7.76 acres). The

total price paid for the combined sites equates to £718,200. On a gross basis this therefore equates to £92,552 per acre. It is understood the property benefited from a planning consent at the time of purchase, which in theory should increase its value when compared to sites purchased purely on a speculative basis.

- Land to north of Slaley Court, Bedlington – based on the Council's identified site area of 1.82 Ha (4.50 acres), the land sold in July 2014 for the equivalent of £125,500 per gross acre. It is understood the property was being promoted through the planning process for residential development at the time of purchase.

- Wheatrridge Farm, Seaton Delaval – based on the Council's identified site area of 7 ha (17.30 acres), the site was purchased for £108,571 per gross acre by Miller Homes. The site was purchased on the basis of an existing planning consent. The site had a requirement to provide 52% affordable units, and a play area at a cost of £102,020.

- Land adjacent to Broadway House Farm, Church Lane, Bedlington – sale identified by DVS. Purchased by Miller Homes in March 2015 for the equivalent of £133,825 per gross acre (excluding VAT).

- Land to rear of Benridge Park, Newsham, Blyth – sale identified by DVS. Purchased by Miller Homes in March 2015 for the equivalent of £77,368 per gross acre (excluding VAT).

- Land at Runnymede Rd, Ponteland – sale identified by DVS. Purchased by Lugano Developments Ltd in Sept 2010 for the equivalent of £195,370 per gross acre (assumed to be excluding VAT).

Part greenfield / part brownfield sites

- The Braid, Amble – purchased by Tesco on the basis of an existing planning consent for a supermarket use. The value in the land was therefore driven by a non-residential use, in this case a supermarket scheme. Price paid equated £765,864 per gross acre (excluding VAT). However, the supermarket sector is currently experiencing a sea-change, with discount supermarkets increasing their market share and the traditionally dominant providers (like Tesco) losing

revenue. It therefore remains to be seen whether a price at this level could be achieved again in the current market even for a supermarket use. In this respect, whilst a useful indication of how values can fluctuate for alternative uses, clearly not all sites would be suitable for a supermarket use and even if they work it is debatable as to whether a lower rate per acre would be achieved in the current market.

Brownfield sites – general

- North Rd, Ponteland – located in a high value area. Site comprises a former care home facility, a sector which tends to generate strong land returns (depending on the nature of the care being provided). The high land value of £1,243,000 per acre is therefore considered to be due to a combination of the high value nature of the location and the high current use value at the time of purchase.

- Land lying to west of Bank Top, Prestwick – land appears to comprise some form of employment use. Site was purchased without the benefit of a planning consent, which will have driven the lower land value of equivalent to £100,049 per gross acre.

- Seafield Site, Seahouses – site area only just over 0.5 acres. Smaller sites tend to command higher land values on a per acre basis. Furthermore, the proposed scheme comprised an apartment scheme of 10 units and therefore was relatively high density for the size of the land. Both factors explain the seemingly high rate achieved here, being £562,303 per acre (which in reality only equated to an actual price paid of £250,000).

Greenfield sites

11.94 In terms of the greenfield sites, the sales values achieved range from £77,368 per gross acre to £195,370 per gross acre, with an average of £122,243 per gross acre. This is therefore considered to be broadly in line with the TLVs identified from 'direct' evidence referred to above.

11.95 As for the brownfield sites and the part greenfield / part brownfield site on the 4 identified there is a more significant fluctuation in the values achieved on a rate per gross acre when compared with the greenfield sites (the range being £100,049 to £1,243,000 per gross acre). This is likely driven by the varying current uses /

alternative uses for each site. This is therefore taken this into consideration when looking to establish average TLVs.

Threshold Land Value Conclusions
Greenfield sites

11.96 For greenfield sites, considerations are summarised as follows:

- In the Interim CIL Study from Dec 2014 the Council suggested 2 test scenarios, adopting TLVs of circa £113,000 and £202,000 per gross acre.
- TLVs identified from unchallenged viability appraisals received by DVS from developers / house-builders across the North East and East Midlands gave an average TLV of £152,668 per gross acre. For low value areas the average reduced to £141,259 per gross acre, medium value areas £156,912 per gross acre and the one high value area returned a TLV of £180,000 per gross acre.
- TLVs negotiated and agreed between DVS and developers / house-builders on individual viability appraisals showed an average of £125,387 per gross acre. For low value areas the average reduced to £98,874 per gross acre, medium value areas £138,022 per gross acre, and high value areas £139,266 per gross acre.
- GVA and HDH Planning, in undertaking area wide studies, suggested an average TLV in the order to £100,000 to £135,000 per gross acre was appropriate. Peter Brett's showed a significantly higher rate, but this evidence was 'skewed' as it included brownfield sites.
- Greenfield market transactions produced a range of £77,368 to £195,370 per gross acre, with an average of £122,243 per gross acre.

11.97 In view of the additional evidence collated and applying professional judgement the DVS commented that the original range adopted by the Council (i.e. circa £133,000 - £202,000) is well supported and considered to be broadly appropriate.

11.98 That said, rather than simply testing 2 scenarios, the DVS suggested it would be prudent to apply a range depending on the nature of the location. Based on their interpretation of the evidence they subsequently suggested the following:

House price range £ per sq m	Suggested TLVs £ per gross acre

Sub £1,750	100,000 – 130,000
£1,750 - £2,250	130,000 – 150,000
Over £2,250	Over 150,000

Figure 31: Value Bands and suggested TLVs

11.99 However, please note the above TLVs assume 'average' sized developments. For significantly larger strategic sites the DVS suggested it appropriate to apply a level of discount to reflect quantum.

Brownfield sites

11.100 As discussed above, TLVs for brownfield sites are subject to potentially a greater level of variance owing to a greater impact of locational factors, CUVs and AUVs. It is therefore more difficult to draw any meaningful conclusions from the brownfield evidence identified, and in reality each site should be taken on its merits and assessed individually. This makes it more difficult to provide average TLVs for the purposes of an area wide study, than compared with greenfield sites.

11.101 In view of these complexities , considerations as summarised as follows:

- In the Interim CIL Study from Dec 2014 the Council suggested an average of circa £105,000 per gross acre.
- TLVs identified from unchallenged viability appraisals received by DVS from developers / house-builders across the North East and East Midlands gave an average TLV of £?? per gross acre.
- HDH Planning, in undertaking area wide studies, showed an average TLV of circa £174,000 per gross acre.
- Brownfield market transactions produced a wide range of £100,049 to £1,243,000 per gross acre.

11.102 Purely based on the figures identified above the average figure of circa £105,000 per gross acre as identified in the interim report appears too low. However, this may be simply because within the evidence identified there are various other existing uses identified that command high values and therefore 'skew' the evidence (for example supermarket land, former care homes etc).

11.103 Based on the DVSs experience, they commented that a rate of £105,000 per gross acre is considered broadly reasonable for secondary / tertiary industrial land (which given the nature of Northumberland as a region is likely to comprise the majority of the brownfield sites). It may be prudent, though, to apply a range rather than a fixed figure, in acknowledgment that TLVs can fluctuate more significantly for brownfield sites. In this regard the DVS considered £75,000 to £125,000 per gross acre to be a

fair and reasonable benchmark for secondary / tertiary industrial land (with the top end of the range being more in line with some of the evidence identified).

11.104 As for the many other brownfield site types, the underlying value of the site will fluctuate significantly depending on the nature of the existing use (e.g. supermarket, retail, office, leisure, care home, mixed use etc). For the purposes of this study the DVS did not consider it appropriate to try and establish an average TLV across each use type.

12. ASSUMPTIONS OVER TIME

12.1 The approach taken to assumptions used over time is discussed in the Harman Guidance. The Guidance recommends that the approach differs across the short, medium and long term.

12.2 Taking a lead from the National Planning Policy's Framework's requirements for a five year housing land supply, 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 goes on to state that the most straightforward and advantageous way to asses plan policies for the first five years, is to work on the basis of current costs and values.

12.3 In assessing the viability of the Northumberland Core Strategy the guidance has been followed and current costs and values have been adopted in assessing viability for the first five years. This approach ensures the 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. Using only the most recent transactions would give an insufficient sample size to provide robust evidence. 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 in previous chapters such as the availability of finance.

12.4 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.

12.5 Beyond the first five years of the plan, other assumptions are applied, especially as some sites are expected to start onsite beyond the initial 5 years of the plan. The Harman Guidance suggests that these longer term plans should be subject to viability testing in order to be assured of plan viability over the plan period. For sites expected in the later period, it is sufficient for there to be a "reasonable prospect that the site is available and could be viably developed at the point envisaged."

12.6 However, less reliance should be placed on these projections of future site viability. Future economic and political circumstances cannot be foreseen, and the Harman Guidance points out that *'it should be recognised that the forecasts for the latter part of the plan period are unlikely to be proved accurate and will need review'*.

12.7 Given these difficulties, there appears to be little point in undertaking detailed analysis of future economic conditions. However a range of sensitivity testing has been applied on other changes in costs and revenues have been applied. Harman points out that it is important that variations against baseline costs, as well as values, be tested and based, where appropriate, on construction cost and other indices.

12.8 Information is available with regards to build costs projections from BCIS and some projections on house prices are also available.

13. VIABILITY ASSESSMENT FINDINGS

13.1 The Interim Viability Assessment Report published in December 2014 provided some preliminary viability testing results for consideration. This provided a profile of viability across the County and across the site typologies, however it was recognised that further testing would be required.

13.2 In order to get a closer balance between plan objectives and economic viability various additional tasks have been undertaken since the Interim Viability Assessment Report. This has included further appraisal of Threshold Land Values, site specific viability appraisals and review and revision of inputs and assumptions as described in previous chapters of this report in light of new evidence.

13.3 The assessment work has helped inform the development of the pre submission draft Core Strategy.

13.4 It is important to stress that the Viability Assessment is one part of a comprehensive evidence base. Its findings don't in themselves determine the policies of the Core Strategy. The results have been considered and balanced alongside the wider Core Strategy evidence base.

Part 1: Core Strategy Viability Assessment Findings

Residential

13.4 For each of the identified hypothetical residential development schemes, the residual land value has been calculated according to the assumptions outlined in the previous chapters. These are briefly summarised below. Previous chapters should be referred to for precise details.

Figure 32: Assumptions Summary Table

Gross Development Value	Tested at four value bands • Low £1,600m2 • Medium £1,900m2 • High £2,300m2 • Highest £2,600m2
Development Make up	• 20-26 Dwellings per gross hectare (except for some minor scale hypothetical schemes tested at a lower density) • Developable area (i.e. proportion of site that is developed

	adjusted according to site size: • Less than 0.4. hectares 100% developable • 0.4-2 hectares 83% developable • 2 hectares and over 70% developable • Flatted schemes 15% ancillary 'unsaleable space' e.g. stairwells • Proportionate split determined by typology but broadly reflecting a 20:40:40 split between two, three and four bedroom homes respectively
Development Costs	• BCIS build costs (August 2015) • £325,121 per gross hectare externals • 3.75% contingencies • 10% professional fees • 4% sales and marketing plus £500 per dwelling legal fees • 1.75% plus standard rate stamp duty for site acquisition • fully debt funded with 6.5% finance costs • 17-20% profit and overhead (varied according to typology) • 6% profit on affordable housing • £500 per dwelling Section 106 contribution • 'Goal Seek' based affordable housing contribution used for testing purposes (CS indicates a requirement of a minimum of 15% affordable housing requirement) • Affordable housing tenure split of 67:33 affordable and intermediate (Development Value £929m2 and £1283m2)
Threshold Land Values	• Low £115,000 per gross acre • Medium £140,000 per gross acre • High & Highest £160,000 per gross acre • Brownfield (Secondary & Tertiary Land) £105,000 per gross acre

13.5 The results effectively form a baseline appraisal, comprising an assessment adopting the assumptions described in this report. The results are presented according to a traffic light system as follows:

- Green means Viable - the Residual Land Value exceeds the Threshold Land Value [27].
- Amber means Marginal – the Residual Land Value is positive, however this does not exceed the Threshold Land Value.
- Red means non-viable – the Residual land Value does not meet the threshold land value.

13.6 The HCA modelling tool described in section 3 enables testing the maximum amount of affordable housing which is viable. This is referred to as Goal seek function.

13.7 The detailed results of modelling are provided in Appendix M and illustrated in summary below.

[27] see section 4 for an explanation of the residual land value equation and a description of the meaning of Threshold land Values. Actual land values are discussed in section 11

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
Strategic Scale Settlement expansion	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%		
Strategic Scale Settlement expansion including flatted development	Extension of a main town or service centre. Comprising 300 dwellings including 20 flats. Mixed brownfield and greenfield.	59%	47%	14%	
Significant scale main town or service centre infill or expansion	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%	
Large scale settlement infill or expansion	Settlement infill or expansion comprising 60 dwellings. Greenfield.	52%	38%	1%	
	Settlement infill or expansion comprising 40 dwellings. Predominantly brownfield.	55%	41%	3%	
Medium scale development	Settlement infill or expansion comprising 20 dwellings. 50:50 Greenfield, Brownfield mix.	51%	36%		
	Settlement infill or expansion comprising 16 dwellings. Greenfield.	43%	26%		
Small Scale development	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%	
Minor scale development	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

Figure 33 baseline VA summary results

13.8 Key findings evident based on the baseline assessment are as follows:

a) other than in low value areas, the residual land value is positive;

b) in medium value areas, although the residual land value is positive it does not exceed the Threshold Land Value;

c) there are significant differences in residual land values across the different value bands within Northumberland;

d) there are wide differences in the proportion of affordable housing achievable through development on sites across value bands which are present in Northumberland;

e) the viability of minor scale development varies

f) residential development in low value areas is generally not viable in the current market according to the assumptions adopted; and

g) residential development in the high and highest value areas has a healthy surplus and could provide high levels of affordable housing or other contributions.

13.9 These findings are not surprising. As emphasised throughout this report, 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 likely 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.

13.10 Although the results are generally positive, it is important to recognise the significance of challenges to viability in the low value areas. The 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 few settlements.

13.11 The Core Strategy's approach to the spatial distribution of development is partly to address housing demand and need in the South East Delivery Area, reflecting its more urban populated character and proximity to the Tyneside conurbation. The approach is also about promoting development in the most sustainable locations and tackling wider issues such as deprivation and lack of employment opportunities.

13.12 In light of findings set out in the interim Viability Assessment, consideration was given to alternative approaches to the spatial distribution of development and the quantum of development proposed in different Delivery Areas and to policy requirements. In recognition of the generally higher values in the central delivery area, the option to redirect more development to these areas was appraised along with the viability of meeting affordable housing requirements.

13.13 While housing numbers in the Central delivery area have increased slightly following the final Draft Core Strategy, options to significantly shift the focus of development to higher value areas were discounted. It was determined that changing the spatial strategy could help to ensure viability, but would be less favourable in respect of many other factors including addressing housing needs and regeneration objectives in key towns such as Ashington. Such an approach would also be unlikely to be deliverable. The Northumberland Strategic Land Review (SLR) should be referred to in this regard. The SLR analyses constraints and opportunities for development within each Main Town and Service Centre. It draws on a number of components of the evidence base including the Green Belt Review and Strategic Housing Land Availability Assessment 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 be all suitably or sustainably accommodated within just those areas with high values.

13.14 In terms of the affordable housing target, the policy in the Pre-Submission Draft Core Strategy has been altered when compared with previous versions of the plan, based on evidence in the SHMA and the earlier viability assessment outputs. While the target of 30% affordable housing remains there is an acknowledgement of existing commitments which will contribute towards meeting needs. Whilst the position will need to be monitored the resulting policy in the pre submission Draft Core Strategy grants flexibility in respect of affordable housing with a minimum target of 15%.

13.15 In respect of the minor scale typologies tested there were a number of schemes identified as being no viable. This is significant in Northumberland given that minor scale residential developments make up an important component of the County's housing supply. On further review it was considered the results may be misleading for this typology. In practice single dwellings are often built by individuals or families. They do not have the same motives for development i.e. they are building a house to live in rather than having the objective of making a profit. Furthermore, for minor schemes including those developed by small housebuilders the properties are often bespoke and likely to have higher end values than assumed.

Site Specific Viability Assessments undertaken by the DVS

13.16 The District Valuer Services, part of the Valuation Office Agency, was commissioned by Northumberland County Council to undertake viability appraisals of a sample of 4 sites across Northumberland. The purpose of the work was to test real sites by way of a sense check of the Viability Assessment findings in respect of sites typologies. This type of sense check exercise is advocated in the Harman Guidance.

13.17 For the individual viability assessments, the DVS adopted an appraisal approach reflecting the Council's planning policies in the Core Strategy Full Draft Plan (Dec 2014). At this time the affordable housing target was for 30% provision. In the event a scheme was deemed unviable with a 30% provision, the DVS looked to reduce the affordable housing contribution until the point at which the scheme is deemed viable.

13.18 The valuations and appraisals were assessed as at September 2015 and are provided in the Appendix.

13.19 Four sites were tested as part of the analysis. The sites are each included within the Council's Strategic Housing Land Availability Assessment ("SHLAA") interim report from December 2014. Each is therefore a 'real' development site (rather than a hypothetical scheme) and their individual characteristics are taken into account in the appraisals. The valuations and appraisals reflect an agreed valuation date of August 2015.

13.20 The sites are anonymous due to issues of commercial confidentiality and ensuring any future assessment of planning applications is not prejudiced. The sites are identified only as Site A, B, C and D and summarised as follows:

Site Name	Delivery Area	Type	PCode	Gross Area (Ha)
Site A	South East	Service centre	NE22	7.48
Site B	South East	Main town	NE24	6.67
Site C	North	Other settlement	NE66	3.04
Site D	Central	Other settlement	NE61	1.09

13.21 While the viability assessment of typologies adopts the assumptions broadly accepted to represent the 'norm', described in previous chapters, the analysis of specific sites offered more explicit local consideration of assumptions detailed in the appendix.

13.22 The appraisals were run using the HCA Development Appraisal Toolkit (DAT) which is an industry approved program designed specifically for residual / viability appraisals of specific developments.

13.23 Where the results show a nil return or any level of surplus the scheme is considered to be viable. If the scheme shows a deficit up to – (minus) £50,000 the scheme is considered to be marginally viable. If the scheme shows a deficit of greater than – (minus) £50,000 the scheme is considered to be unviable. These thresholds vary slightly from the assumed viability in the testing of typologies.

13.24 The results indicate that only 1 site is able to meet the Council's policy of 30%, however 2 sites are likely to be able to deliver circa 25 – 27.5% affordable housing and the remaining site is able to deliver in excess of 20%.

13.25 Three sensitivity tests were applied to the four sites to appraise the impact of changes to assumptions. The scenarios or sensitivity tests applied were as follows:

Scenario 1 – Reduction in sales values by 5%, increase in basic build costs by 5%

In this scenario, the highest value of the sites is still able to achieve circa 27.5% affordable housing whilst the other sites are only able to produce 15-20% affordable housing.

Scenario 2 – Increase in sales values by 5%, basic build costs remain the same

The three highest value sites are able to achieve 30% affordable housing, whilst 27.5% affordable housing is achievable on the lowest value site.

Scenario 3 – increase in sales values by 2.5%, basic build costs remain the same

The highest value site is still able to achieve 30% affordable housing. The other sites will be able to produce in excess of 20% affordable housing.

13.26 Using the DVS assumptions, all of the sites tested are able to yield affordable housing contributions in excess of the minimum requirement in the policy in the Pre-Submission Draft Core Strategy.

Comparison Analysis

13.27 The results of the DVS's viability assessment of specific sites is markedly different from the results of testing site typologies. In part this can be accounted for in the varying assumptions the DVS were able to use, informed by local site specific considerations. These differences in assumptions are discussed in previous chapters and serve to demonstrate the limitations of using broad brush assumptions; and the value of being able to consider viability on a site specific basis. The differences also serve to demonstrate that the assumptions adopted for the purposes of testing typologies are very cautious, and in some instances may be overly cautious. This cautious approach to assumptions can have a cumulative impact, in effect meaning development is significantly more viable than the typology findings suggest.

A Sense Check

13.28 Considering what is happening on the ground is a useful means of further verifying the assessment findings. The results do not reflect current market realities.

13.29 In respect of housing completions in 2014/15 the Council has recorded over 1447 completions (see Appendix M). Of those completions, 47% were in the South East Delivery Area. Whilst there are considerable variations in values in these former districts they are generally considered to comprise predominantly lower value areas. This is a positive indicator that despite the Assessment findings suggesting viability challenges for low value schemes, housing is being delivered. There is also considerable developer interest in these areas, reflected in the level of pre-application discussions.

13.30 As well as delivery and continued developer interest within low value areas, monitoring evidence shows schemes continue to deliver affordable housing. Of total completions in 2013/14, around 22 % were affordable. Throughout the period 2011-15 around 21% were affordable, with many sites across the county delivering between 20% and 30% affordable housing. There are also schemes in low and

medium value areas delivering financial contributions through planning obligations for example for sports and play, above the levels assumed in the Appraisal.

13.31 There has additionally been positive press coverage of the local house-building industry indicating confidence moving forward as the market stabilises.

13.32 On the 10th July 2014, the Journal reported 'Homebuilder Barratt Developments expect pre-tax profits to double in their full year results' citing a significant increase in consumer demand Profits for the full year are described as being expected to be 'at around £390m – more than double the £192m profit before exceptionals posted in the previous period'(http://www.thejournal.co.uk/business/business-news/housebuilder-barratt-developments-grow-sales-73998

13.33 On the 9th July 2015, the Financial Times reported that Barratt's are 'posting a 45 per cent leap in full year pre-tax profits' and that this is higher than analysts' current forecasts, which had predicted pre-tax profits of £556.3m; up from £390.6m in 2014. http://www.ft.com/cms/s/0/4601301a-260c-11e5-9c4e-a775d2b173ca.html

Sensitivity Testing the Viability Assessment of Typologies

13.34 A range of sensitivity testing has been applied to the viability assessment of site typologies to show the impact changes in assumptions. It is important to note that none of the sensitivity tests look at changing a specific variable rather than testing multiple variables.

13.35 The range of sensitivity tests are listed below.

- An allowance for abnormals equivalent to 10% of build cost,
- The professional fees assumption to be retested at 6% of build cost,
- Build cost retested at £834m2
- 5% increase in BCIS build cost
- 10% increase in BCIS build cost
- 10% increase in House Values (Value Bands)
- 10% decrease in House Values (Value Bands)

Abnormals Sensitivity Test

13.36 This sensitivity test has been applied as an additional 10% of the build cost on all sites. It was considered this could be applied to greenfield as well as brownfield sites recognising abnormals can be experienced greenfield. The impact of this test is inevitably an increase in developments costs. Unless there is a corresponding

increase in property values this generally means viability is reduced. However within the highest and high value areas typologies still generate a surplus and can achieve relatively high levels of affordable housing well above 15%.

Professional Fees Sensitivity Test

13.37 This sensitivity test has been applied to test the impact of a reducing in the cost of professional fees to 6% of the build cost on all sites. This captures a recommendation of the DVS that for large scale house builders there may be economies of scale and reduced professional fees. The impact of this test is inevitably an increase in developments costs. Unless there is a corresponding increase in property values this generally means viability is reduced. However, the impact is minimal.

Build cost Sensitivity Test

13.38 As described in pervious chapter BCIS Build costs have been assumed in the viability assessment of site typologies. However, there is evidence that the BCIS build costs have limitations. In light of additional evidence provided by the DVS a sensitivity test has been applied to test the impact of a reducing the build cost to £834$m^{2.}$ This reduces development costs and has a relatively significant positive impact on the viability findings.

5% and 10% increase in BCIS build cost

13.39 While the viability assessment is based on current market conditions it was considered that it would be worth looking ahead over the plan period and testing the impact of potential future increases in build costs. A 5% and 10% increase was applied to BCIS figures. As above, build costs can be sensitive to change i.e. can relatively significantly affect viability findings.

10% increase and 10% decrease in House Values

13.40 In the same way that increases in build costs were tested, recognising values were likely to change over the plan period, increases and decreases in house values were also tested. Alike with build costs, house values can be sensitive to change i.e. can relatively significantly affect viability findings. It should be noted that following a period of recession, house values are recovering and can be clearly demonstrated to be increasing. Decreases to house values of 10% are therefore considered to be unlikely in the plan period.

Community Infrastructure Levy

13.41 Rates of Community Infrastructure Levy have to be underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the

anticipated funding gap that exists; and secondly by evidence of development viability.

13.42 As referred to in Section 1, Northumberland County Council has been working with infrastructure providers and a range of other departments and agencies in considering local requirements associated with the Core Strategy. A Draft Infrastructure Delivery Plan has been published for consultation alongside the pre submission Core Strategy.

13.43 Whilst the 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.

13.44 Deducting the threshold land value from the residual land value, gives the total surplus or deficit after all costs have been met (i.e. after profit and likely land value expectations have been met). This resultant surplus or deficit helps to determine the potential scope for a CIL charge.

13.45 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 sought to determine the maximum amount of affordable housing which would be achieved. Reducing that assumption to 15% as the minimum requirement in the pre-submission Core Strategy a notional test of the impact of a CIL charge could be tested.

13.46 It should be noted that CIL regulations require a potential 'charging authority' to develop a CIL Charging Schedule. If the CIL is pursued, further viability testing will be undertaken to test rates of CIL including variable rates for different development types and areas.

13.47 In the interim, a notional rate of CIL has been tested. This has only be applied to residential development . The CIL is based on a charge per square metre. As a starting point a charge of £50 per sq. m has been tested. This has increased from a notional £30 tested in the interim viability assessment.

13.48 As demonstrated in the Appendix, the CIL charge 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.

Commercial

13.49 For each of the identified hypothetical commercial / non-residential development schemes, the residual land value has been calculated according to the assumptions

outlined in the previous chapters. These are briefly summarised below. Previous chapters should be referred to for precise details.

Gross Development Value	• Tested according to assumed capitalised values
Development Make up	• Gross Internal Floor space derived from averages for each typology • Developable area (i.e. proportion of site that is developed adjusted according to typology from 30% - 115%
Development Costs	• BCIS build costs (August 2014) • 10-15% externals (varying according to typology) • 3.75% contingencies • 10% professional fees • Standard Planning Application Fees • 10% sales marketing and management costs • fully debt funded with 6.5% finance costs • 20% profit and overhead (varied according to typology) • Brownfield Land Value of £105,000 per hectare • Standard Stamp Duty Land Tax

Figure 34: Commercial Assumptions Summary Table

13.50 The full commercial modelling results can be seen in Appendix Q. A summary is provided below

	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, 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

Summary of Commercial Modelling Results

13.50 The findings indicate that most speculative commercial development is not currently viable in Northumberland. This echoes the commentary on the commercial market earlier in this document and the view of the development industry. However, supermarkets of all sizes appear to be viable.

13.51 Retail warehouses also appear to be viable, as do some forms of offices and some forms of smaller A1 shops/retail.

13.52 Evidence suggests that there is some scope for CIL on some types of the more viable commercial development within the County particularly Supermarkets. However, further research on this will be required.

14 Conclusions

14.1 The results presented in section 13 and accompanying appendices provide an assessment of the viability of different types of development across broad value bands, based on the available evidence.

14.2 The Council is satisfied based on the results (including the testing of typologies, the site specific viability assessments and analysis of what is actually being delivered) that the Pre-Submission Draft Core Strategy sets out an appropriate and deliverable strategy. The Council is satisfied that the cumulative impact of the standards and policies should not put implementation of the Core Strategy at serious risk, and should facilitate development throughout the economic cycle.

Overview

14.3 To reiterate earlier points in this report, the 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 site specific analysis. This has strengthened the assessment.

14.4 Overall, it is evident that the Viability Assessment takes a 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. Evidence of what is happening on the ground and also site specific appraisals demonstrate viability is significantly more positive than is indicated is the assessment results based on assumptions of what is considered to be the 'norm'.

14.5 Collectively the results from testing typologies, site specific assessments and actual delivery, 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.

14.6 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.

14.7 A common theme running through all of the results is that they are highly sensitive to appraisal inputs. A relatively small adjustment, particularly for assumptions such as house values, can have a significant effect on the outcome. As noted previously much of the data from which development values have been derived is from a period of relatively depressed values. There have been positive signs of market improvement and it is expected this will continue in the Core Strategy plan period.