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CUSHMAN & WAKEFIELD

# Proposed Publication Version Local Plan, Viability Review

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

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# Contents

# Introduction

North West Leicestershire is preparing its Proposed Publication Version Local Plan. A fundamental part of the preparation process, is a whole plan viability study.

North West Leicestershire District Council appointed Cushman & Wakefield to carry out this whole plan viability study to look at the potential impact of all the policies in the Proposed Publication Version Local Plan upon the viability of new development.

Whilst a whole plan viability study was undertaken of the draft local plan last year, the Council consider it prudent to undertake further testing of the proposed publication version, in view of the continuing changes in the development environment. Such changes notably include the successive reductions in the rent that Government allows Housing Associations to charge. (Starter Homes will also have an impact on viability, though until the Government sets out further details of the requirements it will make on local planning authorities, it is not possible to model their impact for the purposes of viability testing this Local Plan).

The study is an assessment of the viability of the cumulative impact of the Proposed Local Plan's policies on the viability of proposed development, and with respect to ensuring the Plan is consistent with the national planning policy requirements as set out in paragraphs 173 and 174 of the National Planning Policy Framework (NPPF) and the National Planning Practice Guidance.

The study has two fundamental parts: -

1. A viability review of the Proposed Publication Version Local Plan generally with regard to the impact of the policies on the delivery of archetypal residential development sites. Whilst it is the case that most new housing is already committed, or is proposed to be delivered through the two proposed strategic allocations in Ashby and Measham (covered by Part 2, below), there may be additional sites which come forward during the plan period
2. Site specific viability reviews of proposed strategic allocations

A questionnaire relating specifically to the archetypal sites within the District was circulated to the development stakeholders to inform Part 1 of the study, whilst the promoters of the strategic sites (Part 2 of the study) were approached regarding any changes in site specific information that may have occurred since the 2015 Study.

# PART 1: A viability review of the draft Local Plan generally with regard to the impact of the policies on the delivery of archetypal residential development sites

## 1. Viability Modelling Approach

### 1.1 Context

It has been important for the study to test the viability of different site types in different locations in order to understand how viability varies with site size, context and market area. It has, therefore, been necessary to develop a typology of the different types of sites likely to come forward for housing development in the District, and to test the viability of these hypothetical sites under a set of different development scenarios.

Development viability at 29 development site archetypes, reflective of the pattern of sites which may come forward over the Local Plan period (based on policy S3 – Settlement Hierarchy, and information provided by North West Leicestershire District Council on prospective housing sites within these settlements), have been tested for delivery viability against draft local plan policies – specifically affordable housing (H4), housing type and mix (H6) and Section 106 contributions (IF1, IF2 IF3, IF4, EN4, EN1, EN2, EN3, EN5) and open space (IF3).

For each archetype, the viability model calculates a residual land value (including an allowance for a competitive profit return prerequisite for a "willing developer") to determine whether it is above "threshold" land values deemed sufficient to "provide competitive returns to a willing land owner to enable the development to be deliverable", as set out in Paragraph 173 of the National Planning Policy Framework.

This is a strategic study, and in line with the NPPF (Paragraph 167), which states that assessments should be proportionate and not repeat policy assessment which has already been undertaken, considers the deliverability of the Local Plan at a policy level, given the range of site archetypes featured, and is not focused upon specific site analysis. The assessment will take into account the cumulative impact of the policies proposed in the Proposed Publication Version Local Plan.

The results of this study will inform policy but do not bind NWLDC to adopt the results or follow the guidance in relation to specific or individual sites.

## 1.2 Study Approach

It has been important for the study to test the viability of different site types in different locations in order to understand how viability varies with site size, context and market area. It has, therefore, been necessary to develop a typology of the different types of sites which may come forward for housing development in the District, and to test the viability of these hypothetical sites under a set of different development scenarios.

The typology of sites to be assessed was developed in conjunction with North West Leicestershire District Council (NWLDC) and stakeholders (by way of a questionnaire circulated in May 2016) reflect the range, type of sites and locations likely to come forward.

This approach of testing hypothetical sites allows different policy options to be tested in a consistent manner across the range of likely development scenarios. This would not be possible in the same way had the study focused on actual "real life" sites where the particular features of those sites would inevitably have made it difficult to generalise about viability.

Central to the assessment of the viability of housing development is the concept of residual land value.[1] Residual land value is the value that can be attributed to land, when the total cost of development, including an allowance for profit is deducted from the sales values of housing built on site.

The residual land value must be equal or above that deemed sufficient to provide a competitive return to a "willing land owner", as set out in Paragraph 173 of the National Planning Policy Framework. With regard to the land value, and the assumption of profit within it, Paragraph 173 of the Framework, specifically states that:

"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***."

For each archetype, the model calculates a residual land value (including an allowance for a competitive profit return prerequisite for a "willing developer") to determine whether it is above "threshold" land values deemed sufficient to "provide competitive returns to a willing land owner to enable the development to be deliverable." Competitive landowner returns are benchmarked on the basis of an approach that considers both the existing use value of the land, and the residual value of the modelled development (before planning contributions).

[1] This approach is applied for property with development or redevelopment potential. This equation is: Completed Development Value less Construction and development cost; less on cost and finance costs; less Developers Profit = Residual Land Value.

If the residual land value that is higher than the benchmark threshold land value, then the development can be deemed viable; if it is below then the development will not be considered viable by the market.

With regard to developer profit, for the purpose of this study, Cushman & Wakefield have assumed, through their experience of working with developers, that a developer will require a minimum return of 20% (of Gross Development Value) if they are to proceed. Developments that would yield less than this threshold are deemed not to be viable since they do not generate the target rate of return. There are certain circumstances where a developer will proceed with higher or lower rates of return but for this study, the middle ground is selected.

At the core of the study is a detailed viability modelling exercise. This examines the impact on viability of different affordable housing contributions upon hypothetical development schemes in different parts of the study area. The modelling runs a cash flow analysis of each of the hypothetical schemes under each development scenario.

In summary, the key question this element of the study seeks to address is the deliverability of the Local Plan regarding the likely type of residential development sites (in terms of size and location) that the Local Plan supports, considering the cumulative impact of the policies in the Local Plan.

## 1.3 Viability Testing Approach

For each site archetype, a residual development appraisal has been prepared calculating total revenue and deducting from that all costs associated with delivering the development including all costs relating to the policies of the Local Plan, plus an element of developer profit (20% on value), in order to determine what value is left to pay for the land (the residual land value).

The residual land value for the residential development, expressed per acre, is then compared with benchmark rates that must be met for the residential development to be considered viable. Within this study the results are presented by way of a traffic light system, set out and explained below.

It is important to appreciate that a strategic viability model, such as this, is not designed to test the viability of specific individual sites. One of the features of residential development is that the character of sites and level of costs and revenues that apply to development on a specific site will vary. This should, however, be reflected in the price that is paid for the development land. Even so, costs and revenues are often not predictable, and assumptions about the future change in costs and revenues may be proved wrong, delivering returns which are above or below expectations.

This study cannot seek to encompass all the potential differences in individual site circumstances which affect viability. What it can, and does do, is provide a broad assessment of viability in the study areas, to inform policy.

The report establishes six market value areas (in which market research into property prices have been undertaken) covering 29 development site archetypes, as a representative sample of sites proposed to come forward.

The 29 development site archetypes have been tested for delivery viability against Proposed Publication Version Local Plan policies considered to have a direct or indirect effect on development viability – specifically, affordable housing, open space requirements, and the requirements to enter into Section 106 agreements.

Viability is measured using a traffic light indicator system. Where a site is modelled and it produces a positive return of 20% or above the site is given a green light (wholly viable). Where the assumptions outlined in Section 3 (below), results in a return of 17-19.9% this is given an amber light (marginally viable[2]). Where the assumptions inputted into the model yield a return of less than 17% then the site is given a red light (unviable). Some archetypes returning an amber result, and all archetypes returning a red result, are representative of sites that the modelling suggests may require negotiation with the developer over contributions within the parameters of the policies i.e. affordable housing contribution (flexibility).

The archetypes have been shaped by the following considerations:

I. Geographical (as this may form the basis of affordable housing policy), i.e.

- Prime Areas
  - Ashby
  - Castle Donington
  - Kegworth and Measham
- Secondary Areas:
  - Coalville and Ibstock

II. Physical i.e. Size and Type (Greenfield / Brownfield), based on the distribution of sites likely to come forward in accordance with the Local Plan

III. Density: Archetypes are tested at densities of 30dph and 35dph, with the exception of sites in the secondary market areas, which are tested at 35dph only. In secondary market areas, a price ceiling exists, which limits the sizes of houses that developers are generally willing to build, and which has a bearing on average dwelling size (smaller) and hence development density (higher). On this basis, the testing of archetypes based on a 35dph density only, was considered more reflective of the likely nature of development than a set of archetypes also including archetypes based on 30dph (and hence larger dwellings).

[2] Archetypes producing an "amber" result, may or may not be viable, depending on the level of return required by the developer / land value by the owner.

## 1.4 Testing

The results are analysed and considered on the geographical, physical and density market basis, as set out above (e.g. Ashby Large Greenfield, 30dph).

## 1.5 Affordable Housing Policy Scenarios Sense Testing

The archetypes are then subject to sense testing with regard to affordable housing policy scenarios, as follows.

- The initial tenure split tested will be 81% Rented (we have assumed 41% Social Rented and 40% Affordable Rented) and 19% Intermediate (Equity Based) housing, as recommended in the Strategic Housing Market Assessment, followed by two variations,
- 21% Social Rented; 60% Affordable Rented; 19% Intermediate
- Nil Social Rented; 81% Affordable Rented; 19% Intermediate

## 1.6 Market Change Sense Testing

The agreed valuation date of May 2016 is significant to the viability assessment. Generally, residual land values remain short of their 2007 peak in secondary market areas; in the case of NWLDC, areas such as Coalville and Ibstock. In the long term there remains scope for further recovery in these areas and this needs to be taken account of in the modelling by way of a scenario of modest net price growth over the Local Plan period. The valuation date is also a time of high construction costs.



The results of the scenario testing are incorporated in a consideration of each of the application of Local Plan policies in each of the market areas.

Each site archetype, in each scenario, is then tested allowing for a moderate level of cumulative net (over build) price growth of 3.6% over the remaining lifetime (14 years) of the Local Plan. This is modelled assuming annual net price growth of 0.5%[3] over half (seven)[4] the 14 (whole) years of the local plan to 2031.

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[3] Belfield, Chandler, Joyce (2015) Housing: Trends in Prices, Costs and Tenure; IFS Briefing Note BN161. This revealed average real house price growth of approximately 1.25% per annum between 1974 and 2014, though the upward trend is shown to be highly volatile, including periods of much higher growth than the average, and also steep falls incorporating two peaks and three troughs. The 16 year period between 1974 and 1990 saw average annual real growth of 0.8%, whilst the following 16 year period between 1990 and 2006 saw average annual real growth of 2.2%, which may be seen as exceptional.

[4] To model for growth over the entire Local Plan period would provide a false basis for modelling, as it would apply 16 years of net revenue growth to the archetypes. In reality we would expect sites to be developed at a relatively even rate across the Local Plan period, and hence the use of the mid-point of the Local Plan period to model growth on.

# 2. Policy Context & Timing

## 2.1 Policy

This section provides the policy context for the assessment of viability.

The Proposed Publication Version Local Plan sets a number of policy requirements that may have financial implications which development in the District must accord with. The Proposed Publication Version Local Plan was reviewed on the basis of identifying these policies.

The proposed publication Local Plan is split into a number of sections broadly covering the following policy areas:

- Strategy (S): This has identified the main settlements for housing development, which was critical in assisting in creating the development archetypes, so that they pose an accurate reflection of the pattern of development likely to come forward over the period of the Local Plan.
- Housing (H): Controlling housing development and ensuring housing needs are met. The section mainly governs the location of development (reflected in the overall local plan viability study approach), but also covers affordable housing, and housing size mix, which have been tested for their financial impact
- Economic (Ec): Relating to town and local centre development, employment and tourism, the policies in this section do not directly relate to the viability of residential development
- Infrastructure and Facilities (IF): This is key to residential development, and policies with a potential financial impact on residential development have been tested. Where the requirement has a financial impact by way of an off-site commuted sum (or provision of a facility on site), this has been considered through the testing of policy IF1. Policy IF4, references certain strategic and local road improvements to which infrastructure contributions may be made, “where appropriate”. Contributions to these will be site specific abnormal costs and so cannot be considered in the “Part 1” archetype based modelling. (The site specific appraisals of Part 2 have included an allowance for infrastructure contributions in the site specific infrastructure costs (on and off,site) as deemed appropriate.
- Environment (En): Relating to enhancement and protection of a number of the Districts assets. Where these place a site specific constraint, this would be considered as a site specific abnormal development cost or constraint at the development management stage, and cannot be modelled at this stage of policy making
- Historic Environment (He): Relating to enhancement and protection of a number of the Districts assets. Where these place a site specific constraint, this would be considered as a site specific abnormal development cost or constraint at the development management stage, and cannot be modelled at this stage of policy making
- Climate Change (Cc): There are three policies in this section. Cc1, relating to Renewable Energy, is a policy that encourages adoption of renewable energy, is voluntary and so has not been tested. Cc2 relating to floodrisk, is a policy that may serve to constrain development on certain sites, so is site specific, and has not been considered in this element of the Local Plan Viability Study. Cc3, relating to Sustainable Drainage Systems was considered as potentially adding to the cost of development, and were considered below.

Policies were sifted on the basis of the above consideration, and those identified as potentially having a cost and development impact on sites generally, are set out below. These were consulted on with the stakeholders.

| ***Policy Ref*** | ***Policy Subject*** | ***Policy Summary (as applicable)*** |
|---|---|---|
| *IF1* | *Development & Infrastructure* | Development will be supported by, and make contributions to as appropriate, the provision of new physical, social and green infrastructure in order to mitigate its impact upon the environment and communities. Contributions may be secured by means of planning obligations and/or a Community Infrastructure Levy charge, in the event that the Council brings a Charging schedule in to effect.<br>The type of infrastructure required to support new development includes, but is not limited to:<br><br>Affordable housing;<br><br>Community Infrastructure including education, health, cultural facilities and other public services;<br><br>Transport including highways, footpaths and cycleways, public transport and associated facilities;<br><br>Green infrastructure including open space, sport and recreation, National Forest planting (either new provision or enhancement of existing sites) and provision of or improvements to sites of nature conservation value;<br><br>The provision of superfast broadband communications;<br><br>Utilities and waste and;<br><br>Flood prevention and sustainable drainage<br><br>The infrastructure secured (on or off-site) will be provided either as part of the development or through a financial contribution to the appropriate service provider and may include the long-term management and maintenance of the infrastructure.<br><br>In negotiating the provision of infrastructure the Council will have due regard to viability issues and where appropriate will require that the applicant provide viability information to the Council which will then be subject to independent verification.<br><br>The District Council will work closely with infrastructure providers to ensure inclusion of infrastructure schemes within their programmes, plans and strategies, and delivery of specific infrastructure requirements in conjunction with individual development schemes and the expected timing of development coming forward. The |

| Policy Ref | Policy Subject | Policy Summary (as applicable) |
|---|---|---|
| | | Council will also work with partners and other stakeholders to secure public funding towards infrastructure, where possible. |
| *IF2* | *Community and Cultural Facilities* | **[**As additional to IF1] New development will be required to provide or contribute to community facilities and other local services to enhance communities and the residential environment, as part of the development, or if appropriate off-site, where no facilities exist or where existing facilities are deficient. |
| *IF3* | *Open Space, Sport and Recreational Facilities* | [As additional to IF1]<br>In order to meet the needs of the community, provision of open space, sport and recreation facilities will be sought as part of new housing development of 50 or more dwellings having regard to:<br><br>- The scale of the proposed development and the mix and type of dwellings to be provided;<br>- The nature and scale of existing open space, sport and recreation provision within the locality of the proposed site;<br>- The likely population characteristics resulting from the proposed development as well as that of the existing population in the locality;<br>- Local evidence of need , including (but not limited to) a Playing Pitch Strategy, open space assessment of need or equivalent sources<br><br>Any open space, sport and recreation provision should be designed as an integral part of the proposed development in accordance with Policy S5 in respect of Design<br>Provision of open space, sports and recreation facilities should be located on-site unless off-site or partial off-site contribution would result in an equally beneficial enhancement to an existing open space, sports and /or recreation facility which is of benefit to the local community.<br>Loss of Open Space<br>- In assessing the appropriateness of development which would result in the loss of a site which at the time the development proposes is considered, is an open space, sports or recreation facility within the Limits to Development, the following principle will be taken into consideration:<br><br>(a) The developer/ applicant will need to provide clear evidence that the open space, sports or recreation facility is surplus to the applicable quantitative standard;<br>(b) The loss of the open space , sports or recreation facility results in an equally beneficial replacement or enhanced existing facility for the local community;<br>(c) The loss of the open space, sports and recreation facility is for the purpose of providing an ancillary development which improves the functioning, usability or viability of the open space, sport and recreation uses e.g. changing rooms, toilets, assembly and function uses.<br>(d) The loss of the open space, sports or recreation facility will not result in the fragmentation or isolation of a site which is |

| Policy Ref | Policy Subject | Policy Summary (as applicable) |
|---|---|---|
| | | part of a green infrastructure corridor.<br><br>- Proposals involving the potential loss of an open space, sports or recreation facility outside of the limits to development will be considered under the provisions of the Countryside policy (Policy S4).<br><br>- Any proposals resulting in a loss of an open space, sports or recreation facility should be able to clearly demonstrate that the facility is not only currently surplus to requirements, but taking into account the population needs of the community over the plan period.<br><br>Further guidance will be set out within a Supplementary Planning Document to be prepared by the Council. |
| *IF4* | *Transport Infrastructure and New Development* | (1) [The Council, working with the highway authorities, will ensure that development takes account of the impact upon the highway network and the environment and incorporates safe and accessible connections to the transport network to enable travel choice for residents and commuters. In assessing proposals regard will be had to any Transport Assessment/Statement and Travel Plan prepared to support the application.<br><br>(2) New development will be expected to contribute towards improvement of the following where there is a demonstrable impact as a result of the proposed development:<br><br>(a) The provision of cycle links within and beyond sites so as to create a network of cycleways across the district, including linkages to key Green Infrastructure<br><br>(b) The provision of public footpath links within and beyond sites so as to enhance the network of footpaths across the district, including linkages to key Green Infrastructure<br><br>(c) The provision of new public transport services, or the enhancement of existing services, to serve new developments so that accessibility by non-car modes is maximised<br><br>(d) Strategic road improvements<br><br>• J22 of M1<br>• J13 of A42<br>(e) Local road improvements<br><br>• the A511 corridor between J22 of the M1 and J13 of the A42 |

| *Policy Ref* | *Policy Subject* | *Policy Summary (as applicable)* |
|---|---|---|
| *En1* | *Nature Conservation* | New development will be expected to maintain existing ecological networks, hotspots and landscape features (such as water courses and waterways, disused railway lines, trees and hedgerows and s) for biodiversity, as well as for other green infrastructure and recreational uses. |
| *En2* | *River Mease Special Area of Conservation* | The Council will work with Natural England, the Environment Agency, Severn Trent Water, other local authorities and the development industry to improve the water quality of the river Mease Special Area of Conservation.<br><br>In order to achieve this, new development within the River Mease catchment will be allowed where:<br><br>(a) There is sufficient headroom capacity available at the Wastewater Treatment Works to which it is proposed that flows from the development will go; and<br><br>(b) The proposed development is in accordance with the provisions of the Water Quality Management Plan including, where appropriate, the provision of infrastructure or water quality improvements proposed in the Developer Contributions Scheme.<br><br>In the event that there is no headroom capacity available at the appropriate wastewater treatment works, or exceptionally where as part of the development it is proposed to use a non-mains drainage solution for the disposal of foul water and this is supported by the Environment Agency, development will only be allowed where it can be demonstrated that the proposed development, on its own and cumulatively with other development, will not have an adverse impact, directly or indirectly, upon the integrity of the River Mease Special Area of Conservation. |

We set out below, a schedule of the draft policies considered above, and the monetary allowance used in the modelling.

| **Policy Ref** | **Policy Area** | **£ Allowance / dwelling** | **Assumption** |
|---|---|---|---|
| IF1 | Development & Infrastructure | £5,000 | NWLDC has established a comprehensive database of S106 agreements and their various provisions. Reviewing this for all housing developments of 10 or more dwellings, the median requirement is between £4,000 - £5,000 / dwelling. This is inclusive of contributions required under policies relating to the River Mease and the National Forest |

| Policy Ref | Policy Area | £ Allowance / dwelling | Assumption |
|---|---|---|---|
| IF2 | Community & Cultural Facilities | Refer to IF1 | |
| IF3 | Open Space and Recreational Facilities | Refer to IF1 | Contributions have been included in the calculation behind the allowance of £5,000 / dwelling, above |
| IF4 | Transport Infrastructure & New Development | Reasonable on site provision for pedestrians and cyclists is made within the external costs allowance for build costs (3.3.2). Contributions relating to public transport have been included in the calculation behind the allowance of £5,000/dwelling, above, whilst other elements are considered as site specific abnormal costs | |
| En2 | River Mease Special Area of Conservation | Refer to IF1 | Contributions have been included in the calculation behind the allowance of £5,000 / dwelling, above |
| En3 | National Forest | Refer to IF1 | Contributions have been included in the calculation behind the allowance of £5,000 / dwelling, above |
| CC3 | Sustainable Urban Drainage Systems | N/A | We have assumed that SUDs will not be technically viable on schemes of less than 150 dwellings. All the development archetypes to be modelled are less than 150 dwellings. |
| D1 | Design of New Development: | No extra over costs identified with compliance | Design principles assumed to be readily achievable through the development management process |
| H4 | Affordable Housing | Refer to Sections 3.3 and 3.3.1 regarding assumptions made | |
| H6 | Housing Types and Mix | Refer to Sections 3.3 and 4.4.2, regarding assumptions made | |

## 2.2 Timing of This Study

The agreed valuation date of May 2016 is significant to the viability assessment. Generally, residual land values remain short of their 2007 peak in secondary market areas; in the case of NWLDC, areas such as Coalville and Ibstock. In the long term there is scope for some recovery in these areas and this needs to be taken account of in the modelling by way of a scenario of modest net price growth over the Local Plan period.

It is inevitable that viability studies have to be undertaken at a particular point in time (in this instance the valuation date of May 2016), and reflect a particular set of market

circumstances. Notwithstanding this, planning policies for affordable housing also need to be set for the long term, and should have sufficient flexibility to cope with changes in the market.

Local authorities need to appreciate how development viability is assessed in order to be in a position to negotiate as part of the planning application process, whilst seeking to ensure that policies can be applied for the majority of developments. The balance between being, sufficiently robust to ensure that not every application is subject to negotiation, whilst being sufficiently flexible to recognise special circumstances is a difficult balance to strike, but it is in the interest of both the development industry and local authorities to find the right balance.

# 3. Viability Model Workings and Assumptions

This section of the report provides an overview of the structure of the viability model and the assumptions it uses.

## 3.1 Model Targets – What defines Viability?

The model is based on the principles of a residual development appraisal.

The model was run for each archetype.

**Developer Return**
A target developer rate of return of 20% GDV (net) was selected following stakeholder consultation and an assessment of minimum return requirements for the development sector. Net profit is the profit to the developer following any deductions for finance, marketing and fee overheads which are accounted for separately within the model.

For each site archetype, the model calculates a residual land value (including an allowance for a competitive profit return prerequisite for a willing developer)"to determine whether it is above "threshold" land values deemed sufficient to "provide competitive returns to a willing land owner to enable the development to be deliverable."

**Landowner Return**
The National Planning Policy Framework (paragraph 173) makes specific reference to the economics of development:

*"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****."*

The selection of site value thresholds in area wide studies is problematic due to the wide range of hypothetical schemes being tested and the lack of adequate evidence of what minimum level land owners are willing to release their land for.

**The RICS guidance note Financial Viability in Planning 2012 defines site value as follows:**

*"Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan."*

**The Local Housing Delivery Group: Viability Testing Local Plans advice for planning practitioners (July 2012),** states that viability studies should incorporate a threshold land value based on 'a premium over current use values and credible alternative use values'. It also highlights the limitations of using market values for policy-making viability evidence recognising that historic market values do not take into account the impact of future policy on land prices.

Whilst there appears to be an inconsistency in the recommendations of the two guidance documents, both effectively recommend that site value thresholds for area wide viability studies should be set somewhere between existing use/credible alternative use and market values assuming planning permission without planning obligations.

**For the purposes of this study**, we have applied a formula that calculates a site value threshold utilising the archetype viability assumptions outlined in the previous sections.

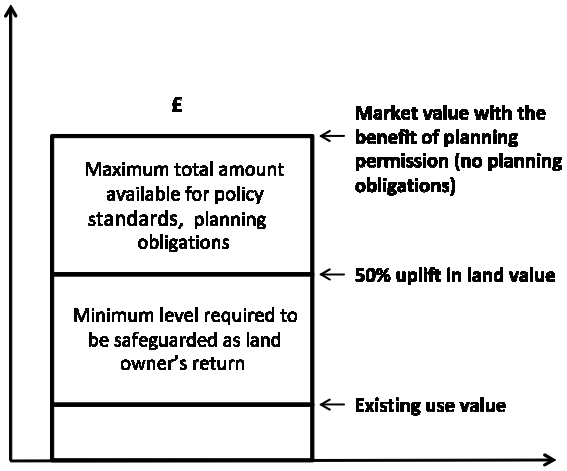
I. It sets the site value threshold at 50% of the uplift between existing use/alternative use values and full market value assuming planning consent for residential development with no planning obligations. Effectively therefore, this level is set as a minimum floor level for testing the scale of planning obligations and policy standards. The figure below illustrates this approach.

II. To arrive at a suitable site value threshold using this methodology, two land typologies have then been applied to reflect the principal different existing use values which prevail across the District:

- Greenfield agricultural land use – £7,500 / gross acre
- Brownfield employment land use[5]
- Coalville Urban Area, Castle Donington and Kegworth: £400,000/ net acre
- A42 Corridor: £350,000 / net acre
- Elsewhere: £175,000 / net acre

Site value thresholds are then calculated for each development archetype that is appraised based on the 50% uplift formula. A key benefit of this approach is that the site value threshold is linked (and adjusts) to the dynamics of the individual development scheme and costs and value assumptions that are appraised in the model. The formula is summarised as follows and illustrated in the diagram below:

[5]Typical values sourced from Cushman & Wakefield Industrial Agency




## 3.2 Approach

As outlined in Section 1, Cushman & Wakefield has adopted a staged approach in assessing the financial viability and impact of different planning policy options.

**Stage 1** involved market research to determine key model inputs. The selection of development scenarios to be examined and selection of hypothetical sites was also undertaken.

**Stage 2** agreed the modelling inputs and scenarios with NWLDC and consulted on these with key stakeholders. Following consultation, assumptions were altered, where appropriate, to reflect stakeholders comments.

**Stage 3** involved modelling to test the viability of development on different hypothetical sites, considering the material viability impacts of policy requirements covering affordable housing and Section 106 contributions, open space, and Sustainable Construction & Energy requirements.

The study approach is tailored to the specific requirements and circumstances of the District of North West Leicestershire. It takes account of a range of circumstances applied across the study areas but does not seek to capture analysis of the specific sites (except for the Strategic Sites tested). To do this would have been impossible in practical terms and inappropriate to a strategic study designed to inform policy development in line with the guidance of the NPPF (Paragraph 167) that such assessments should be proportionate. This approach is also consistent with Planning Practice Guidance regarding viability and plan making (Paragraph 006) regarding the use of site typologies.

There will always be a wide range of specific circumstances that will affect viability on particular sites, and developers will assess these in determining whether to proceed. In addition, developers are not homogenous and what this strategic study has to do, in order to produce meaningful results, is to standardise, where it is possible and appropriate, assumptions across the District to enable the variables influenced by Policy to be tested. If all other variables were not fixed, the impact of policy could not be properly assessed. Developer's appetites for risk vary, and they have different requirement in terms of returns. Abnormal development costs are particularly site and developer specific and a developers

approach to development may change in different market circumstances and different market areas, and it is impossible to capture this level of variance in a strategic policy appraisal.

## 3.3 Model Inputs

Whilst there has been a market recovery in many parts of the District over the past year, prices in many of the more secondary market areas remain subdued, and this places substantial pressure on the viability of residential development. Therefore as part of the viability modelling, a modest level of net market growth has been allowed for at a rate of 0.5% per annum, assuming this growth over half the remaining plan period, which is equivalent to 3.6%.

The key variable assumptions that have been used for testing viability in the model are as follows:

- Market Area
- Site Size
- Density
- Revenues (Relating to market area and affordable housing)
- Costs (Relating to policy)

The assumptions outlined below are the final assumptions inputted into the model which have been altered to reflect stakeholder feedback.

The model is structured on the basis of a time series cash flow for a particular development. The main input into the model is the configuration of the scheme, in terms of the number of dwellings, density, and tenure and disposal period. The hypothetical schemes (the site archetypes) have been selected to reflect a representative range of different sites across the District.

An important part of the viability modelling is therefore to capture how sales values (and by implication land values) vary across the District. This has been an important part of our consideration of site archetypes, below.

Policy S2 of the proposed publication  Local Plan for Consultation sets out the development strategy for the District, from the priority areas of development through to the small villages and hamlets where growth will be limited to meet a specific economic or social need. Reflecting the development strategy of the proposed publication Local Plan, and the housing market geography of the District, it was considered appropriate to model the following geographical archetypes for the purposes of the viability modelling.

<u>The Principle Town (generally a secondary market area) – assuming Greenfield and brownfield development</u>

- The Coalville Urban Area, which comprises: - of Coalville, Donington-le-Heath, Greenhill, Hugglescote, Snibston, Thringstone and Whitwick as well as the Bardon employment area.

<u>The Key Service Centres (both prime market areas) – assuming Greenfield and brownfield development</u>

- Ashby de la Zouch
- Castle Donington

Local Service Centres in Prime Market Areas- assuming greenfield and brownfield / infill development

- Kegworth and Measham

Local Service Centre in Secondary Market Areas – assuming greenfield development

- Ibstock

For each of the market areas, it was determined that a range of site sizes and, where applicable, densities would be tested in order to ensure that a range of developments are analysed. Based on consultation with NWLDC and the stakeholders, the following (over the page) site sizes, and densities were modelled for each of the market areas.

**Figure 3.1: Viability Modelling Archetypes**

| Market Value Band | Settlement Status | Context | | Site Size (Gross) ha? | Density (Dwellings per net developable hectare) |
|---|---|---|---|---|---|
| Primary | Key Service Centres | Greenfield | ASHBY | 5 | 35 |
| | | | | | 30 |
| | | Brownfield | | 1 | 35 |
| | | | | | 30 |
| | | Greenfield | CASTLE DONINGTON | 5 | 35 |
| | | | | | 30 |
| | | Brownfield | | 1 | 35 |
| | | | | | 30 |
| | Local Service Centres | Greenfield | KEGWORTH | 5 | 35 |
| | | | | | 30 |
| | | | | 1 | 35 |
| | | | | | 30 |
| | | Brownfield | | 5 | 35 |
| | | | | | 30 |
| | | | | 1 | 35 |
| | | | | | 30 |
| | | Greenfield | MEASHAM | 5 | 35 |
| | | | | | 30 |
| | | | | 1 | 35 |
| | | | | | 30 |
| | | Brownfield | | 5 | 35 |
| | | | | | 30 |
| | | | | 1 | 35 |
| | | | | | 30 |
| Secondary | The Coalville Urban Area | Greenfield | COALVILLE URBAN AREA | 5 | 35 |
| | | | | 1 | 35 |
| | | Brownfield | | 5 | 35 |
| | | | | 1 | 35 |
| | Local Service Centre | Greenfield | IBSTOCK | 1 | 35 |

Taking into account all the above combinations (market, site size and density), a total number of 29 hypothetical sites were tested during this modelling, as set out in the figure above.

Once the hypothetical sites were decided upon, the other major inputs into the model are the assumptions around costs and values. Detailed work has been undertaken in respect of both of these aspects as outlined below.

**Revenue (£ per sqft) by unit type, size and tenure**

For the **market** *housing, an average £ per sqft value is calculated.* A review of sales data was undertaken in order to determine likely values for residential property in the market areas, using modern new build housing as much as possible. The results of this analysis were then drawn together to produce a list of revenues which were tested with stakeholders. Average Property size assumptions were also presented and consulted upon with stakeholders.

With regard to the sampling of recent sales transactions, where possible this focused on transactions relating to new build/modern housing from the past year, with the geography of the sampling area being implicit in the named market area.

Following stakeholder consultation, the final values and property sizes used in the modelling were as follows:

**Figure 3.2: Sales Prices (£/sq.ft)**

| Density (& assumed average dwelling size) Density | £ / sq ft by Market Area | | | | | |
|---|---|---|---|---|---|---|
| | Prime | | | | Secondary | |
| | Ashby Key Service Centre | Castle Donington Key Service Centre | Kegworth Local Service Centre | Measham Local Service Centre | Coalville Urban Area (Principle Town) | Ibstock Local Service Centre |
| 35dph (1,025sqft) | 227 | 207 | 207 | 207 | 177 | 177 |
| 30dph (1,200sqft) | 222 | 202 | 202 | 202 | - | - |

For affordable dwellings, also subject to consultation, we assumed an average size of 700 square feet, reflecting the emphasis of Policy H6 towards smaller affordable housing (68% two bedrooms or less, 29% three bedrooms).

### 3.3.1 Affordable Housing

For the revenue streams generated by the affordable housing, we have assumed a percentage of market value for each tenure type. We have assumed 35% of Open Market Value across all the market areas, for social rented, 45% for Affordable Rent, and 60% for shared ownership.

The tenure splits analysed were:

- 81% Rented (we have assumed 41% Social Rented and 40% Affordable Rented) and 19% Intermediate (Equity Based) housing, as recommended in the Strategic Housing Market Assessment, followed by two variations,
- 21% Social Rented; 60% Affordable Rented; 19% Intermediate
- Nil Social Rented; 81% Affordable Rented; 19% Intermediate

### 3.3.2 Build Costs

We have obtained data from the Building Cost Information Service (BCIS) on median and lower quartile build costs (£ per sq ft) for Estate Housing in North West Leicestershire.

BCIS figures do not incorporate an allowance for externals and plot utility connections; typically 10-15% is added to make an allowance for this element depending on the location and scale of development; for a small scheme, particularly an infill scheme the element of allowance required for external and plot connections may be low (sub 10%), whilst for larger and / or greenfield site the allowance required may be more towards the top end of this scale. Similarly, in our experience, professional fees for most schemes average around the 5-6% mark.

We made a differentiation on the BCIS basis on which to use for small, and large (40 dwellings plus) sites as follows.

| | | |
|---|---|---|
| **Build Costs** (including external works allowance of 12%) | Small Site (less than 40 dwellings) | *Houses*: £105per sq ft (i.e. BCIS Median +12%) |
| | Large Site (40+ dwellings) | *Houses*: £93 per sq ft (i.e. BCIS Lower Quartile +12%) |
| **Professional Fees** | 6% | |
| **Build Contingency** | Brownfield Sites | 5% |
| | Greenfield Sites | 2.5% |
| **Abnormal Costs** | None; for the purposes of viability testing the Local Plan policies, all sites are clear and ready to develop. Viability considerations relating to site specific abnormal costs will be considered at the planning application stage | |

We recognise that the distinction at the site specific level can never be clear cut, it is acknowledged that for any particular scheme, build costs will be affected by site conditions, the configuration of the scheme and the target market at which it is aimed. Notwithstanding this, larger schemes are able to achieve economies of scale, whilst small schemes, may conversely be subject to higher average build costs, especially if developed by a small, local builder.

### 3.3.3 Other Development Assumptions

The model incorporates a number of other assumptions which have been held constant for all aspects of the viability assessment and are based on Cushman & Wakefield's experience of valuing schemes in the local markets. These additional assumptions are as follows:

| | | |
|---|---|---|
| **Development Rate(after 3 month lead in, with sales commencing 6 months after construction)** | Small Site | 3 per month |
| | Large Site (40+) | 4 per month |
| **Interest Rate** | 6.5% /annum on debt (Applied to cashflow within Argus Circle Developer Model) | |
| **Sales and Marketing** | 3% on private residential sales | |
| **Land Purchaser Costs** | Stamp Duty Land Tax, plus, 1% Agent, 0.75% legal | |
| **Developer Return** | 20% of Gross Development Value of entire development, including affordable housing | |

### 3.3.4 Site Gross Area to Net Developable Area Ratios

Alongside the build density, the efficiency at which a site area can be developed governs the overall development amount, and can hence have a key bearing on viability. As a guide, and after consultation, this study has adopted the methodology as follow:

- If a site is up to 0.4 ha then the area calculated [as net developable] will remain unchanged;
- If a site is between 0.4 ha - 2 ha then 82.5% of the site size will be used with the density requirement to establish the residential capacity;
- If a site is greater than 2 ha then 62.5% of the site size will be used with the density requirement to establish the residential capacity;

## 3.4 Viability Testing Approach

As outlined, a development appraisal was run for each site archetype. The residual land value for the residential development, expressed per acre, was then compared with benchmark rates that must be met for the residential development to be considered viable. Within this study the results are presented by way of a traffic light system, set out and explained below.

**Figure 7.4 Viability Categories**

| | |
|---|---|
| | **Not viable** – Residual land value allowing for 20% profit on value for the developer, and cost of Local Plan Policy Requirements, and the quantum of affordable housing tested, **does not match** the calculated threshold land value / landowner's target return, required to bring the site forward for development. |
| | **Marginal** – – Residual land value allowing for cost of Local Plan Policy Requirements, and the quantum of affordable housing tested, **matches** the calculated threshold land value / landowner's target return, but only by adjusting the profit on value of the developer to between 17% and 19.9%. |
| | **Viable -** A Residual land value, which allows for 20% profit on value for the developer, allowing for cost of Local Plan Policy Requirements, and the quantum of affordable housing tested, and matches or exceeds the threshold land value / landowner's target return, required to bring the site forward for development. |

## 3.5 Scope of the Study

It is important to appreciate that a strategic viability model such as this is not designed to test the viability of specific individual sites. One of the features of residential development is that the character of sites and level of costs and revenues that apply to development on a specific site will vary. This should, however, be reflected in the price that is paid for the development land. Even so, costs and revenues are often not predictable, and assumptions about the future change in costs and revenues may be proved wrong, delivering returns which are above or below expectations.

This study cannot seek to encompass all the potential differences in individual site circumstances which affect viability. What it can, and does do, is provide a broad assessment of viability in the study areas, to inform policy, which is consistent with the NPPF guidance regarding proportionate evidence.

The agreed valuation date of May 2016 is significant to the viability assessment. Generally, residual land values remain short of their 2007 peak in secondary market areas; in the case of NWLDC, areas such as Coalville and Ibstock. In the long term there is scope for some recovery in these areas and this needs to be taken account of in the modelling by way of a scenario of modest net price growth over the Local Plan period. The valuation date is also a time of particularly high construction costs, as the construction sector that lost significant capacity during the recession tries to responds to the recovery in demand.

The results of each of the scenarios tested are incorporated in a consideration of each of the application of Local Plan policy in each of the market areas.

# 4. Viability Testing

## 4.1 Introduction

The previous sections have established the 29 development site archetypes, as a representative sample of sites likely to come forward in accordance with the Local Plan.

The 29 development site archetypes have been tested for delivery viability against the proposed publication Local Plan policies – specifically affordable housing and Section 106 contributions, open space, and sustainable construction & energy requirements.

The Section 106 costs we have modelled cover a range of areas for which Section 106 payments are commonly required in North West Leicestershire, including public transport and sustainable transport measures, highways and foothpaths, library services, open space, parks and recreation, education, police and health services, most of which fall outside the direction of North West Leicestershire District Council. For this reason primarily, we have treated Section 106 costs as a constant in the modelling; a Local Planning authority such as NWLDC has less discretion in adjusting these cost requirements than it does affordable housing, as in the most part it is not the same authority responsible for the services for which Section 106 contributions are required.

Viability is measured using a traffic light indicator system. Where a site is modelled and it produces a positive return of 20% or above the site is given a green light (wholly viable). Where the assumptions outlined in section 3, above, result in a return of 17-19.9% this is given an amber light (marginally viable). Where the assumptions inputted into the model yield a return of less than 17% then the site is given a red light (unviable).

## 4.1 Scenarios Tested

For each archetype the following affordable housing scenarios were tested.

- 81% Rented (we have assumed 41% Social Rented and 40% Affordable Rented) and 19% Intermediate (Equity Based) housing, as recommended in the Strategic Housing Market Assessment, followed by two variations,
- 21% Social Rented; 60% Affordable Rented; 19% Intermediate
- Nil Social Rented; 81% Affordable Rented; 19% Intermediate.

Two market scenarios are tested.

- Based on the current market

- Assuming cumulative net price growth of 3.6% over the remaining Plan Period (based on net annual growth of 0.5% to the midpoint between 2016 (now) and 2031 (the end of the Plan Period)

## 4.2 Results - Current Market Scenario

The results of the modelling, in the current market, are presented over the page (Green – viable; Amber – marginal; Red – not viable).

## Viability Modelling – Current Market

| Market Value Band | Settlement Status | Context | Settlement | Site Size (Gross) ha | Density (Dwellings per net developable hectare) | % Affordable Housing Tested and Tenure Blend | | | | | | Estimate of deliverable % of Affordable Housing (to nearest 5%) by archetype |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 20% Affordable | | | 30% Affordable | | | |
| | | | | | | 81% Aff Rent / 19% Shared Ownership/ Nil Social Rent | 21% Shared Ownership, 60% Aff Rent, 19% Social Rent | 41% Social Rent, 20% Aff Rent, 19% Shared Ownership | 81% Aff Rent / 19% Shared Ownership/ Nil Social Rent | 21% Shared Ownership, 60% Aff Rent, 19% Social Rent | 41% Social Rent, 20% Aff Rent, 19% Shared Ownership | |
| Primary | Key Service Centres | Greenfield | Ashby | 5 | 35 | | | | | | | 30% |
| | | | | | 30 | | | | | | | 30% |
| | | | | 1 | 35 | | | | | | | 20% |
| | | | | | 30 | | | | | | | 30% |
| | | Brownfield | | 5 | 35 | | | | | | | 15% |
| | | | | | 30 | | | | | | | 15% |
| | | | | 1 | 35 | | | | | | | 10% |
| | | | | | 30 | | | | | | | 10% |
| | | Greenfield | Castle Donington | 5 | 35 | | | | | | | 30% |
| | | | | | 30 | | | | | | | 30% |
| | | | | 1 | 35 | | | | | | | 20% |
| | | | | | 30 | | | | | | | 25% |
| | | Brownfield | | 5 | 35 | | | | | | | 5% |
| | | | | | 30 | | | | | | | 5% |
| | | | | 1 | 35 | | | | | | | 5% |
| | | | | | 30 | | | | | | | 5% |
| | Local Service Centre or smaller | Greenfield | Kegworth & Measham | 5 | 35 | | | | | | | 30% |
| | | | | | 30 | | | | | | | 30% |
| | | | | | 35 | | | | | | | 20% |
| | | | | | 30 | | | | | | | 25% |
| | | Brownfield | Kegworth Brownfield | 5 | 35 | | | | | | | 5% |
| | | | | | 30 | | | | | | | 5% |
| | | | | 1 | 35 | | | | | | | 5% |
| | | | | | 30 | | | | | | | 5% |
| | | | Measham Brownfield | 5 | 35 | | | | | | | 10% |
| | | | | | 30 | | | | | | | 10% |
| | | | | 1 | 35 | | | | | | | 5% |
| | | | | | 30 | | | | | | | 5% |
| Secondary | The Coalville Urban Area | Greenfield | Coalville Urban Area | 5 | 35 | | | | | | | 20% |
| | | | | 1 | 35 | | | | | | | 5% |
| | | Brownfield | | 5 | 35 | | | | | | | 5% |
| | | | | 1 | 35 | | | | | | | 5% |
| | Local Service Centre (e.g. Ibstock) or smaller | Greenfield | Local Service Centre (e.g. Ibstock) or smaller | 1 | 35 | | | | | | | 5% |

### 4.1.1 Rate of 30% for Ashby, Castle Donington, Measham and Kegworth

This modelling suggests that this rate would be generally appropriate at greenfield sites across the two Key Service Centres (Ashby and Castle Donington), though smaller sites in these settlements may be closer to 20 - 25%, and in Castle Donington likely to be a requirement for affordable rent in the mix in order to achieve in the region of 25-30%

Results from the brownfield archetypes reveal a more dichotomous pattern, across the two service centres, reflecting the much high alternative use values for employment land in Castle Donington over Ashby with brownfield development potentially achieving in the region of 15% on the larger sites in Ashby, but closer to 5%in Castle Donington

The results in the Local Service Centres of Measham and Kegworth, generally reflect those of Castle Donington, Greenfield sites at Kegworth and Measham performing similarly to those at Castle Donington, and the brownfield sites performing similarly poorly in view of the similarly high alternative employment values.

These results suggest a slight decline in viability since 2015, generally through the affect of reduced value of social rented housing, with an additional factor on the brownfield sites being the substantially increased employment land values.

### 4.1.2 Rate of 20% for Coalville and Ibstock

This modelling suggests that this rate may be possible on the larger greenfield sites in Coalville, though there may be a requirement for affordable rent in the mix in order to achieve this (reflecting the impact of the reduced value of social rented housing).

All other archetypes are shown not be viable at 20% affordable housing, which is a reflection of the pattern shown in 2015.

### 4.1.3 Generally

Whilst the results suggest that a rate of 25% at Kegworth, Measham and Castle Donington, is arguably more appropriate for a wider range of the site archetypes at these centres, the rate potentially risks an under provision against the rate that is potentially viable on the larger greenfield sites at these centres, where 30% is potentially achievable.

The same applies with regard to Coalville, where 20% is potentially achievable on large greenfield sites, in contrast to the performance on the other archetypes.

## 4.3 Results - Growth Scenario

As with the current market scenario, the results from the Growth Market Scenario modelling (over the page) are considered against various affordable housing scenarios.

| Viability Modelling 2016 – With 0.5% Annual Net Sales Value Growth | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Market Value Band | Settlement Status | Context | Settlement | Site Size (Gross) ha | Density (Dwellings per net developable hectare) | % Affordable Housing Tested and Blend | | | | | |
| | | | | | | 20% Affordable | | | 30% Affordable | | |
| | | | | | | 81% Aff Rent / 19% Shared Ownership/ Nil Social Rent | 21% Shared Ownership, 60% Aff Rent, 19% Social Rent | 41% Social Rent, 20% Aff Rent, 19% Shared Ownership | 81% Aff Rent / 19% Shared Ownership/ Nil Social Rent | 21% Shared Ownership, 60% Aff Rent, 19% Social Rent | 41% Social Rent, 20% Aff Rent, 19% Shared Ownership |
| Primary | Key Service Centres | Greenfield | Ashby | 5 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | Brownfield | | 5 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | Greenfield | Castle Donington | 5 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | Brownfield | | 5 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | Local Service Centre or smaller | Greenfield | Kegworth & Measham | 5 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | | | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | Brownfield | Kegworth Brownfield | 5 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | Measham Brownfield | 5 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | | | | | 30 | | | | | | |
| Secondary | The Coalville Urban Area | Greenfield | Coalville Urban Area | 5 | 35 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | | Brownfield | | 5 | 35 | | | | | | |
| | | | | 1 | 35 | | | | | | |
| | Local Service Centre (e.g. Ibstock) or smaller | Greenfield | Local Service Centre (e.g. Ibstock) or smaller | 1 | 35 | | | | | | |

### 4.3.1 Rate of 30% for Ashby, Castle Donington, Measham and Kegworth

To recap, the current market modelling suggested:

- that this rate would be generally appropriate at greenfield sites across the two Key Service Centres (Ashby and Castle Donington),
- though smaller sites in these settlements may be closer to 20 - 25%, and,
- in Castle Donington likely to be a requirement for affordable rent in the mix in order to achieve in the region of 25-30%
- A more dichotomous pattern with regard to the brownfield sites,
  - reflecting the much high alternative use values for employment land in Castle Donington over Ashby with brownfield development potentially achieving in the region of 15% on the larger sites in Ashby, but closer to 5%in Castle Donington
- The results in the Local Service Centres of Measham and Kegworth, generally reflecting those of Castle Donington,
  - greenfield sites at Kegworth and Measham performing similarly to those at Castle Donington, and,
  - the brownfield sites performing similarly poorly in view of the similarly high alternative employment values.

The only notable change introduced in the market growth scenario was further improvement in viability on brownfield sites in Ashby, and with the larger brownfield archetypes in Measham shown as marginal at 20% affordable housing, whilst alternative use employment values on brownfield sites Kegworth and Castle Donington remain too high for a change in viability to register with these settlements' brownfield archetypes, even under the growth scenario.

### 4.3.2 Rate of 20% for Coalville and Ibstock

The market growth has the effect of offsetting the effects of the reduced value of social rented tenure, on development in Coalville. Whilst, as with the current market scenario, the largest Greenfield archetype remains the only archetype shown to be capable of delivering 20% affordable housing, the modelling suggests that under the growth scenario, the Strategic Housing Market Assessment proposed tenure mix advocated by the Local Plan, with the majority of the rented tenure (21% of the tenure mix) provided through is shown to be viable.

### 4.3.3 Generally

Whilst the Growth Scenario does not expand the range of archetypes showing target affordable housing quantum's as viable, the modest level of growth modelled over the remainder of the Local Plan period has several notable effects:

- all the Ashby brownfield archetypes are shown as either viable or marginally viable at 20% affordable housing,
- whilst the larger Measham archetypes are shown as marginally viable at 20% affordable housing.

## 4.4 Consideration in the Round

### 4.4.1 Generally

The modelling suggests that, in the context of the policies of Proposed Publication Version Local Plan, the affordable housing targets set out in Policy H4 of the Proposed Publication Version Local Plan (below), as they apply to the named settlements, are reasonable.

| Status of Settlement | Settlement Name | Minimum Affordable Housing Contribution |
|---|---|---|
| Key Service Centre | Ashby de la Zouch | 30% |
| Key Service Centre | Castle Donington | 30% |
| Principle Town | Coalville Urban Area | 20% |
| Local Service Centre | Ibstock | 20% |
| Local Service Centre | Kegworth | 30% |
| Local Service Centre | Measham | 30% |

- With regard to the Principle Town (Coalville Urban Area), the target of 20% affordable housing is shown to be viable on the greenfield archetype modelled, in both market scenarios
- With regard to the Key Service Centres (Ashby and Castle Donington), the rate of 30% affordable housing is shown to be viable, or marginally viable, on the majority of greenfield site archetypes in the current market environment, and on all greenfield site archetypes in the Growth Scenario
- With regard to the Local Service Centres of Kegworth and Measham, the rate of 30% affordable housing is shown to be viable, or marginally viable on the majority of greenfield site archetypes, including the large site archetypes (shown to be viable), in the current market scenario, and all greenfield archetypes in the growth scenario.
- The Local Service Centre of Ibstock is the only key settlement shown to have difficulty in potentially achieving the affordable housing policy target in the local plan; this relates to the use of a small site archetype only in the modelling, broadly reflective of the sites likely to come forward

It is our understanding that the majority of development across the District over the Plan period will be on Greenfield sites, and so the generally favourable performance of the greenfield archetypes against the policies of the local plan is encouraging. Notwithstanding this, Brownfield sites will still have a notable complementary role in housing delivery over the Plan Period.

The performance of the brownfield site archetypes is both more challenging, and the pattern, more complex.

The modelling, in both market scenarios, suggests that the generally higher threshold land values that landowners of brownfield land may require (particularly in Coalville and Kegworth), combined with the generally higher development costs compared to greenfield sites, will require the provision for such additional costs to be offset against possible affordable housing contributions. This is particularly the case for the Coalville Urban Area

- Whilst a secondary residential market area, the principle town, Coalville, is a high value employment land area, which makes brownfield land development generally unviable in Coalville.
- Conversely, Ashby, which is the strongest of the key centres regarding residential values, has lower employment land values than Coalville, and reflecting up to around 15%, affordable housing may be deliverable on some Brownfield sites in Ashby over the local plan period.
- Castle Donington, the other Key Service Centre, is a prime residential market, though not as strong as that of Ashby, whilst employment land values in Castle Donington are as strong as Coalville, and it follows that the modelling suggests that only up to 5% affordable housing may be possible on sites.
- Finally, the two stronger (residential) local centres, Kegworth and Measham perform similarly in residential market terms, though Measham, by way of its location in the secondary "A42 corridor" employment land market, and hence with lower alternative use values for brownfield land sites, may be able to support a slightly higher (potentially in the 10-15%, range, and possibly up to 20% in the growth scenario) of affordable housing than Kegworth (around 5%)

Overall, the performance of the brownfield sites, whilst not strong, is reasonable, and must be considered on the basis that North West Leicestershire envisage such sites taking a minority role in the delivery of the Plan's housing numbers. It is also of significance that a notable quantum of residential development on Brownfield land in Coalville (which the modelling suggests may be unviable) is being undertaken by Registered Providers (Registered Social Landlords), which is encouraging[6].

### 4.4.2 Policy H6

Within Policy H6 of the Proposed Publication Version Local Plan is an aim to secure a greater proportion of smaller market housing, to match the requirement identified in the SHMA. The aspired housing size mix is as below.

| Type of Housing | Dwelling size | | | |
|---|---|---|---|---|
| | 1 bed | 2 bed | 3 bed | 4 bed |
| **Market** | 5-10% | 35-40% | 45-50% | 10-15% |

Whilst the viability modelling has made assumptions, based on our market knowledge, regarding the average size of the open market dwellings in the different value areas modelled[7], the final mix of house types will be a function of the precise nature of each site, and buyer preferences at the time. It is unusual for this mix to be directly influenced by planning policy.

[6] The business investment models of Registered Providers, who invest as landlords as well as developers, are different to those of mainstream developers, particularly with regard to how returns are gauged and expressed. This study has considered viability based on standard market assumptions, primarily considering the site (actual or archetypal) and how this might bear on viability; in line with RICS guidance this viability assessment has not made an assumption as regards the type of developer.

[7] Our average sqft sizes assume a mix in the region of 20-25% 2 bedroom, 50% 3 bedroom, and 25-30% 4 bedroom plus

In higher value areas, such as Ashby, two bedroom housing may achieve significantly lower revenues on a per square foot basis (up to around £20/sqft) then larger dwellings, in order to stay within reach of first time buyers. Any policy that seeks to adjust the development mix towards smaller dwellings, particularly 2 bedrooms and less, at the expense of 4 bedroom housing will thus have an adverse effect on overall sales revenues, and hence viability, and the ability to provide affordable housing. If this policy were to be strictly implemented, the amount of affordable housing that this report would recommend could be viably supported would reduce in the prime market areas of Ashby and Castle Donington in particular.

# PART 2 STRATEGIC SITES

# 5. Policy H3a – Strategic Site of about 1,750 dwellings on land north of Ashby de la Zouch

## 5.1 Local Plan Policy and Site Location

Policy H3a proposes a strategic site of about 1,750 dwellings on land north of Ashby de la Zouch, including for the following: -

(i) provision for suitable and safe access from the A511 (the principal vehicular access route), Smisby Road (the secondary vehicular access point) and Nottingham Road (primarily as a sustainable transport access, with some potential for very limited vehicular access) and;
(ii) any highway link between the A511 access and Smisby Road access should be designed in such a way that it would not provide an attractive through route from the A511 to Smisby Road and;
(iii) provision of suitable and safe walking and cycling connections from the site to Ashby town centre and adjoining employment areas (existing and proposed) and;
(iv) provision of a range of infrastructure including a new primary school, extensions to secondary schools, affordable housing, open spaces, green infrastructure and community facilities and enhanced public transport provision and;
(v) design and layout of the proposed development should minimise the impact upon the setting of Ashby de la Zouch Conservation Area and;
(vi) provision for the discharge of wastewater into the Mease catchment in accordance with the provisions of policy En2. Development which does not meet these provisions will not be permitted. In addition, development will not be permitted until a second 'development window' for the Developer Contributions Scheme has been agreed and;
(vii) provision of a mineral assessment identifying the potential effect of the proposed development on the mineral resources beneath and adjacent to the site.

The proposed allocation adjoins a conservation area and is in proximity to the Ashby Castle Scheduled Monument.

The proposal is split over two SHLAA sites:

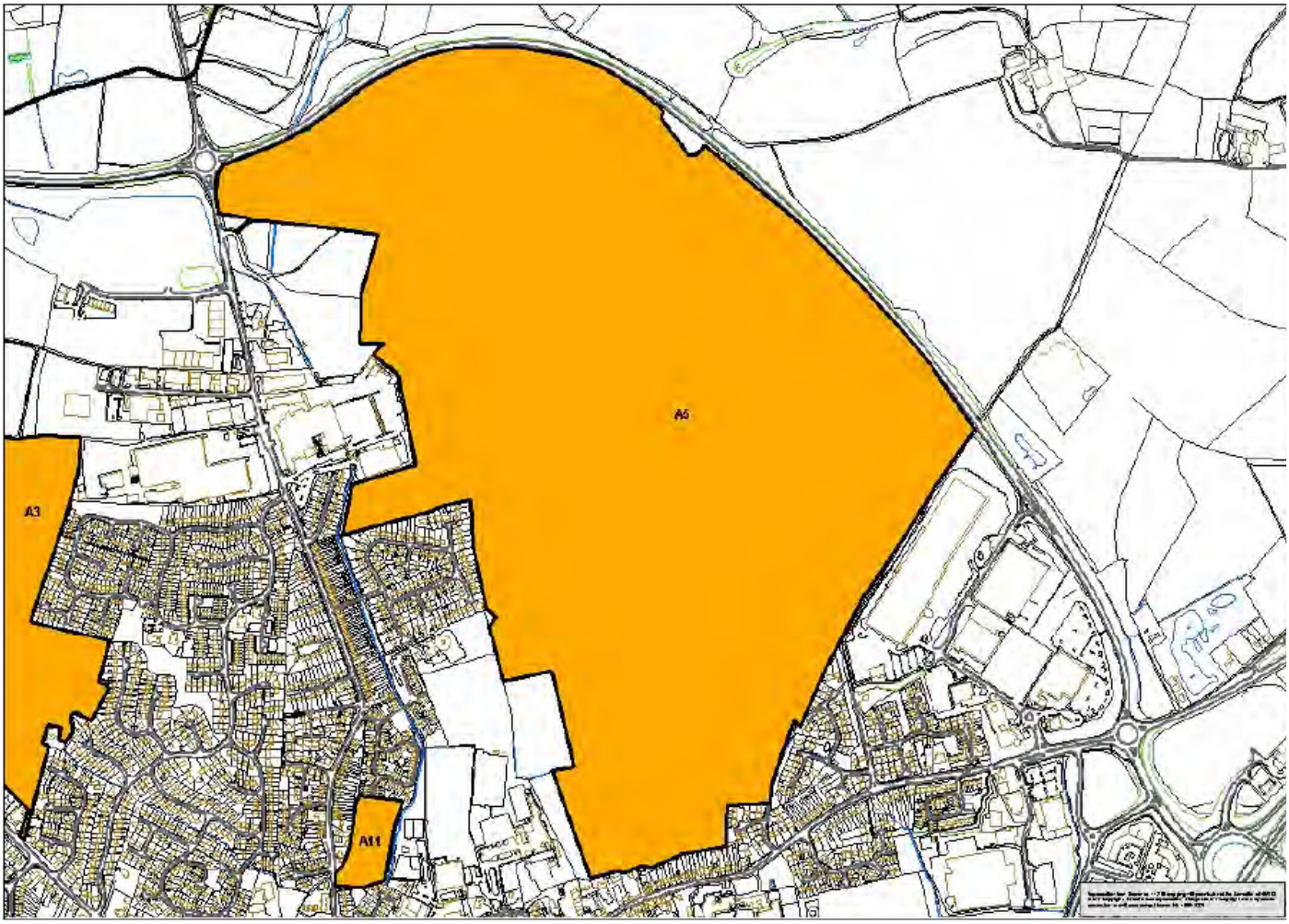
- Site A5: Land at Money Hill, the larger of the two sites covering, expected to accommodate around 1,600 dwellings
- Site A22: Arla Dairy, Smisby Road, Ashby, expected to accommodate about 150 dwellings

## 5.2 Land at Money Hill (A5) – 128.5 hectares

Situated immediately north of Ashby town centre, the 128.5 hectare site is located on land to the south of the A511 and east of Smisby Road, Ashby de la Zouch. The site is currently used for agricultural purposes. There are existing residential properties adjacent to parts of the western and south eastern boundaries of the site. The site is part enclosed by an embankment along its boundary with the A511. The site is Grade 3 Agricultural Land and within the National Forest. The north western extent of the site falls within the Highways Consultation Zone. The site is also within the catchment area of the River Mease SAC. Flood Zones 2 & 3 are immediately adjacent to the western extent of the site and there is also a Conservation Area immediately to the south of the site.

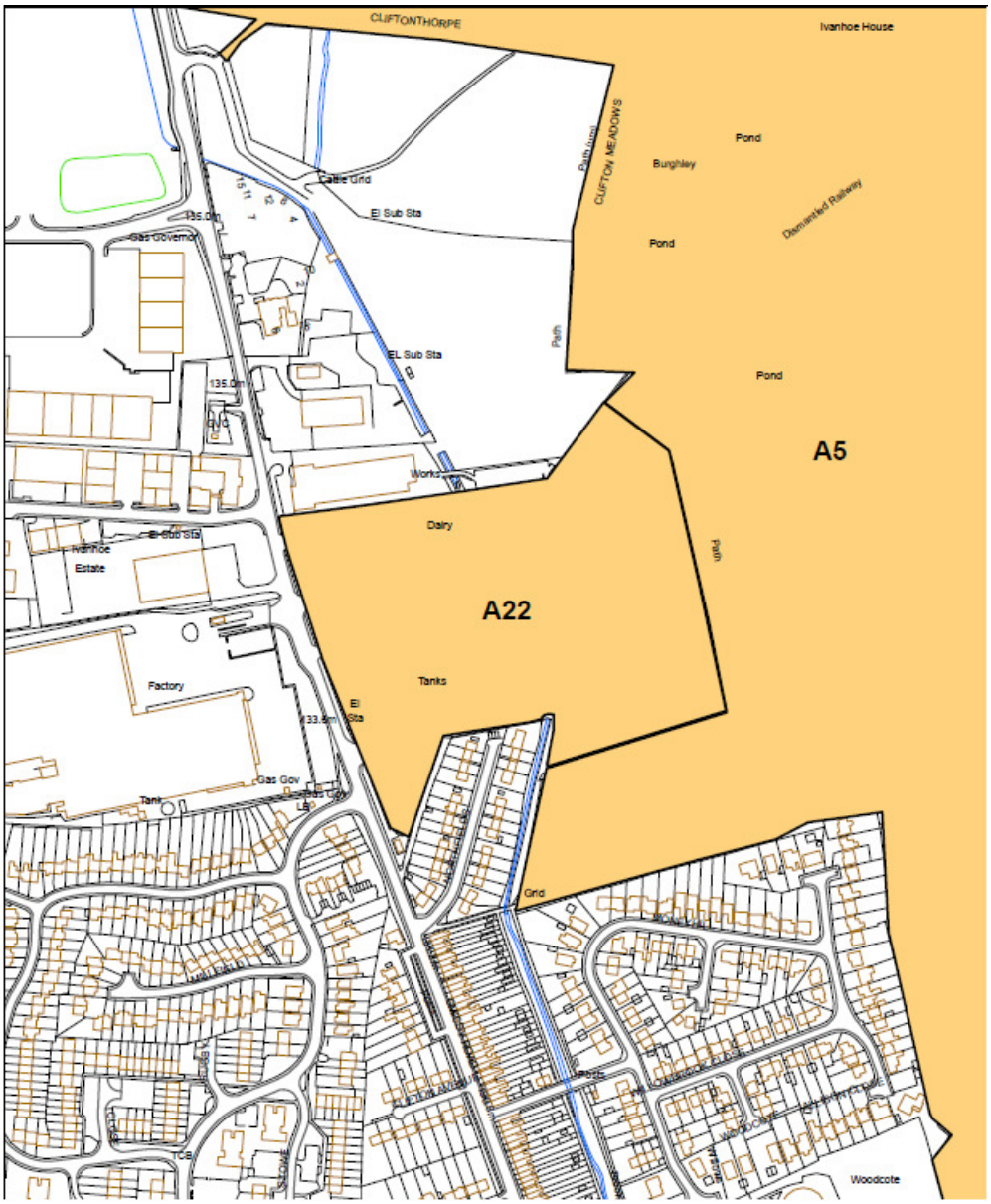
The site is mainly under the control of the Money Hill Consortium.

An map extract of the site (A5) from the SHLAA, is presented below



## 5.3 Arla Dairy, Smisby Road (A22), 5.1 hectares

The site is located to the east of Smisby Road, and west of the adjoining Money Hill site. The site is fairly flat brownfield land occupied by several industrial buildings associated with the previous dairy use. To the north and west of the site are industrial units, to part of the south of the site are residential dwellings and to the east is open agricultural land. The Gilwiskaw Brook runs north to south underneath the site, therefore a large part of the centre of the site is within Flood Zones 2 and 3. The edge of the site along Smisby Road is within the Highways Consultation Zone. The site is 35m from a former tip site. A public footpath runs along the eastern boundary. The site is within the National Forest. To the east of the site is a probable Great Crested Newt breeding area. The site is within the catchment area of the River Mease SAC. A map extract of the site from the SHLAA, and which shows the site in the context of its position west of the Money Hill site, is presented below



## 5.4 Land Use Schedule

Land use schedules, provided by the respective site promotors, are presented below.

| | Money Hill Site ( Money Hill Consortium)[8] | |
|---|---|---|
| | **Hectares** | **Acres** |
| Residential (1,400dw @ 37 dph) | 37.35 | 92.3 |
| Employment | 16.78 | 41.4 |
| Local centre | 1.12 | 2.8 |
| School | 1.5 | 3.7 |
| Health | 0.52 | 1.3 |
| Extra Care | 0.62 | 1.5 |
| Open Space / Green Infrastructure | 45.78 | 113.1 |
| **Total** | **103.7** | **256.1** |

| | Arla Site | |
|---|---|---|
| | **Hectares** | **Acres** |
| Residential (153dw @ 37 dph) | 4 | 9.9 |
| Employment | - | |
| Local centre | - | |
| School | - | |
| Health | - | |
| Extra Care | - | |
| Open Space / Green Infrastructure | 1.4 | **3.5** |
| **Total** | **5.4** | **13.4** |

These land use schedules do not equate to the entire combined site (133.6 ha), as set out in the SHLAA. We have assumed that the quantum of development across the entire allocation will be in the region of 1,750 dwellings (as proposed in the proposed publication local plan), across a net residential area in the region of 53.85 net residential (circa 32dph) hectares

[8] The balance of the site, we understand, is under the control of another party. Whilst we do not have details of this part of the site, we have assumed that the quantum of development across the entire allocation will be in the region of 1,750 dwellings (as proposed in the draft local plan), across a net residential area in the region of 53.85 net residential (circa 32dph) hectares (133 acres)

# 6. Site Specific Appraisal Assumptions (Ashby)

## 6.1 Development Trajectory - Residential

The Money Hill Consortium have advised that development, on the land under their control, will commence at a rate of 75 homes per annum, allowing for two development outlets (Taylor Wimpey and Bloors), and also including for affordable housing. This report considers the wider H3a allocation in the round.

We would presume development would progress across the Money Hill site on a broadly north to south basis closely relating to the construction of the link road to the A511, which will form the main access to the site (with access from Woodcock Way to the south, being limited). We have assumed the Arla site will be able to progress independently of the link road.

For a site of up to 1,750 dwellings we would presume up to three development points being on site at any one time, each producing around 55 dwellings per annum (including affordable housing). The current agreed trajectory we understand is as follows (below), based on between 1 and 3 development points at any one time across the life of the scheme (be they on the Arla site or on either of the Money Hill sites). This would suggest an average development rate of around 115 dwellings per year across the H3a allocation, and so a development period of around 16 years (allowing for a one year infrastructure lead in period). An indicative trajectory, which implies a development period that will go beyond 2031, is presented below, and the viability modelling is based on this development period.

| Dwellings | Development Year | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| Completions / annum | 0 | 40 | 50 | 50 | 100 | 100 | 120 | 140 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 100 |
| Cumulative Completions | 0 | 40 | 90 | 140 | 240 | 340 | 460 | 600 | 750 | 900 | 1050 | 1200 | 1350 | 1500 | 1650 | 1750 |

## 6.2 Site Specific Infrastructure Assumptions

Site specific infrastructure requirements are infrastructure elements required to support the development, additional to the normal infrastructure costs associated with residential development, and might include distributor roads (in addition to estate / tertiary roads), and additional utilities infrastructure (in addition to usual plot connections)

In May 2015 the promotors of the Arla site confirmed the requirement for a 6.7 metre wide spine road running across their site, from its access on Smisby Road to the eastern site boundary, and estimate this cost to be in the region of £420,000. We understand from the promoters that this requirement remains, and have agreed that the cost allowance should, for the purposes of this exercise, be updated according to the BCIS Tender Price Index. As of May 26, 2016 the All In Tender Price Index was showing a rise of 2 points (from 277 to 279), and a year on year increase

of 0.7% over the period Quarter 2 2015 to Quarter 2 2016. On this basis the allowance for the road has been increased to £425,000.

The promotors of the Money Hill site have confirmed that they do not expect any abnormal costs over and above the expected costs of the strategic road network requirements and community infrastructure provision inherent in a scheme of around 1,500 dwellings.

On this basis we have made an allowance for infrastructure costs of £35,250,000, for the whole site allocation, based on a rate of just over £20,000 per dwelling (assuming 1,750 dwellings), with the costs weighted towards the first half of the development period. The overall cost is benchmarked against other strategic sites we have been involved in, and would broadly cover the following elements:

| Element |
|---|
| On Site Highways / Spine Road |
| Utilities Infrastructure |
| Open Space Provision / Green Infrastructure |
| Ecology, Archaeology, Other Site Investigations |
| Site Preliminaries |
| Professional Fees (infrastructure) and Local Authority Fees (infrastructure) |

## 6.3 Section 106 Requirement

An allowance of £8,000 per dwelling (£14 million in total) has been made[9]. This is consistent with our estimation of the Section 106 payment (expressed on a per dwelling basis) proposed for the Phase 1 planning application, and is similar to a number of other Sustainable Urban Extensions with which we have been involved in Leicestershire. We have presumed inclusion of the following requirements within this S106 allowance:

- Enhanced Connectivity
- Education (contribution to new primary school, high school and upper school contributions)
- River Mease
- Library
- Healthcare
- Police

## 6.4 Development Values

### 6.4.1 Residential

In close proximity to the site is the David Wilson Homes development, Ivanhoe Fields, off Smisby Road. At the time of the 2015 review the site remained in its marketing phase, with asking prices as follows.

[9] This is higher than the assumption of £5,000/dwelling used in the Part 1, site archetype, modelling, which referenced the median Section 106 payment agreed at sites across the District. For the purposes of the site specific modelling in Part 2, we have referenced the site specific benchmark information available (relating to the Phase 1 planning application) regarding S106 payments

| Address | Type | Bedrooms | Sale Price | Approx. Size | £/sqf |
|---|---|---|---|---|---|
| The Bayswater | Detached | 4 | £296,995 | 1300 | £228 |
| The Layton | Detached | 4 | £399,995 | 1590 | £251 |
| The Irving | Detached | 4 | £264,995 | 1170 | £226 |
| The Hurst | Detached | 4 | £299,995 | 1354 | £221 |

As of May 2016 the scheme is complete with all dwellings sold. A four bedroom detached house (The Layton type) fronting on to Smisby Road is being marketed for sale for £344,950, for the equivalent we understand from the plans in the marketing information, of around £229/sqft. For comparison, the most recent detached home sold (as a new build) was 5 Templar Road (circa 1,590sqft), which sold for £369,995 (£232/sqft) in September 2015.

Average net sales values for new build homes in Ashby were subject to consultation with stakeholders as part of the district wide viability modelling process (Part 1 of this Local Plan Viability Study), and average net sales prices of £222 – 227/sqft were agreed (assuming average sized dwellings in the range of 1,025sqft to 1,200sqft. For this strategic site, which will accommodate a mix of developments, we have assumed an average size of 1,055sqft (at 32dph on average) and average net sales price of £227/sqft.

### 6.4.2 Employment Land

Some 16.8 hectares (41.4 acres) of employment land is proposed at the site, to which we would attribute a value of £350,000 / acre, suggesting a total land value for the employment land of £14.49 million, with a drawdown of no more than 10 acres a year.

### 6.4.3 Local Centre, including Extra Care Facility and Health Centre

A local centre of some 1.12 hectares (2.8 acres) is proposed. We understand an extra care facility, to occupy some 0.62 hectares (1.5 acres) is also proposed adjacent to the local centre. We also assume the proposed health centre[10], to occupy some 0.5 hectares (1.3 acres) will be located alongside these uses. For the purpose of this study we would attribute a value in the region of £75,000 / acre, suggesting a total land value for the local centre of around £420,000.

[10] Subject to confirmation of requirement

## 6.5 Other Appraisal Assumptions

In the preparation of our appraisal we take into consideration a number of site specific factors, including infrastructure costs, and which have been considered above. The development appraisal items (A) below are common to all commercial residential developments, irrespective of the size and nature of the scheme. We have made a series of qualified assumptions (B), based on research presented in the previous sections of this report, and on our own wider experience (C).

| A. Item | B. Assumption | C. Commentary |
|---|---|---|
| **House Build Costs (including estate roads and normal utility services)** | £87/sqft | Cushman & Wakefield assumption based on other SUE build costs |
| **Professional Fees (including design fees relating to house build costs, and also including reserved matters planning costs)** | 4% | A market rate appropriate to a scheme of this scale. |
| **Build Contingency** | 2.5% | Appropriate to the scale and type of development scheme |
| **Sales and Marketing Costs** | 3% | Appropriate to the scale and type of development scheme. |
| **Debt** | 6.5% | The current market rate. |
| **Profit on Gross Development Value** | 20% | The current market rate. |
| **Market Dwellings - Sales Values (assumed average £/sqft) for the** | £227/sqft | Based on an analysis of local comparables, above, and assuming average size of 1,055sqft (Section 6.4.1). |
| **Market Dwellings – assumed average size** | 1055 sqft | Based on a blend of dwelling sizes consistent with an approximate 32dph density (average across the whole scheme; for example densities may vary across the SUE from 25dph to 45dph). |
| **Affordable Dwellings – assumed average size** | 700 sqft | Consistent with the provision made in the Part 1 Assessment (Area Wide Viability Assessment) |
| **Affordable Dwellings – assumed average £/sqft Value** | £99 - £109/sqft | Consistent with the provision made in the Part 1 Assessment (Area Wide Viability Assessment) regarding range of tenure splits, and tenure values |
| **Development Rate (Market & Affordable Dwellings)** | Between 70dw/annum and 165dw/annum | See section 6.1 |

# 7. Viability Modelling (Ashby)

## 7.1 Introduction

This section brings the evidence and assumptions of the previous sections together, in the form of a summarised development viability appraisal relating to the SUE site. The results of these appraisals are interpreted, and their meaning for North West Leicestershire District Council in terms of policy approach, is set out.

The site represents a significant development opportunity, reflected in the financial and time resources expended by the land promotors of the two sites.

Notwithstanding this, the large scale nature of SUEs also pose significant development risk, relating particularly to the significant infrastructure requirements they require, not just in terms of transport but also the community, green and social infrastructure that they need to function as Sustainable Urban Extensions.

In this context, there is a risk that a SUE may not be able to deliver this crucial infrastructure whilst also delivering policy compliant affordable housing and section 106 packages, and delivering competitive returns to a willing developer and a willing land owner, as set out in paragraph 73 of the National Planning Policy Framework:

*"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."*

## 7.2 Land Owner Return / Threshold Land Value

The issue of landowner return / threshold land value is critical to assessing development viability. Paragraph 173 of the National Planning Policy Framework states that the return shall be sufficient for a "willing landowner"; Viability Testing Local Plans, Advice for Planning Practitioners (Local Housing Delivery Group; June 2012) states that the Threshold Land Value should represent the value at which a typical "willing landowner" is likely to release land for development, before payment of taxes (such as capital gains tax), allowing for a certain premium over the existing/alternative use value.

The premium over existing/alternative use value, at which a landowner would become a "willing seller" has been the subject of considerable discussion in recent years, with the Harman Report (Viability Testing Local Plans) and the RICS (Viability Guidance for Planners 2012), suggesting different approaches (Reviewed and discussed in Part 1 of this Draft Local Plan Viability Review). The position has perhaps been even less clear for agricultural land potentially being brought forward for residential use given the relatively low existing use value.

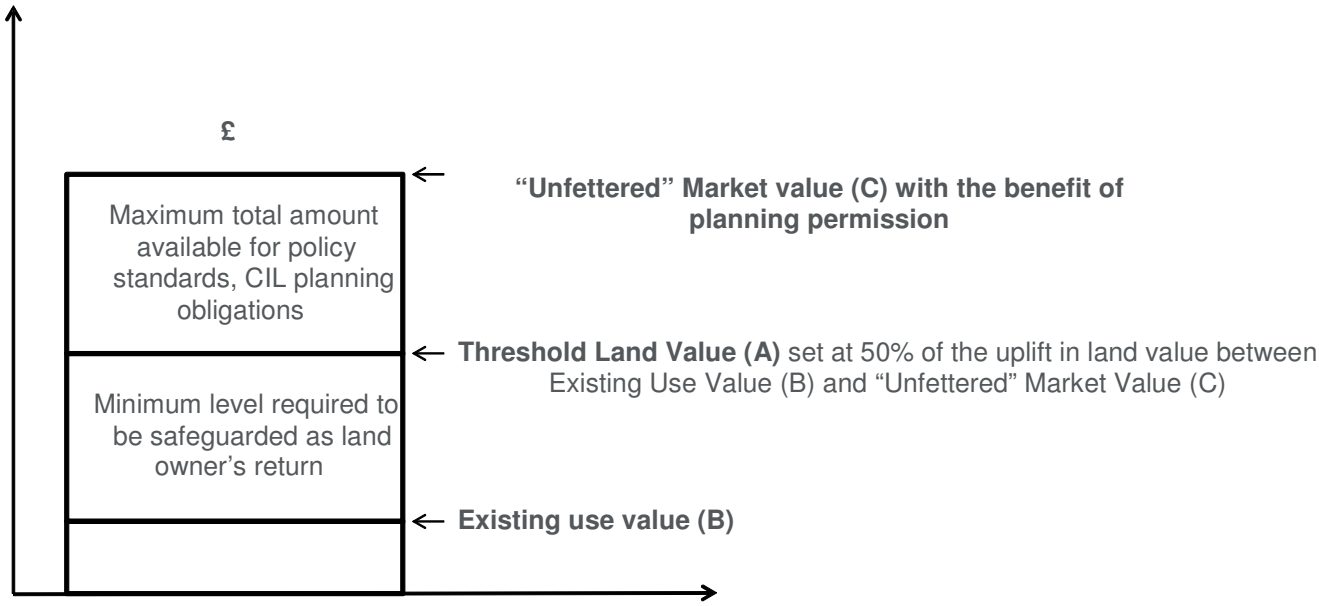
A critical consideration is the allowable size of the premium over the existing/alternative use value, and whilst the Harman Report made several pertinent observations relating to how a view on value might be taken with regard to agricultural land, it presented nothing in the way of an approach. Practical guidance has been limited and essentially anecdotal: -

- Between 10 - 20 times agricultural use (HCA Area Wide Viability Model; Annex 1: Transparent Viability Assumptions, August 2010)

- In the region of £100,000 - £200,000 per gross acre (Cumulative impacts of regulations on house builders and landowners, DCLG 2011; a research paper published in the interests of transparency)

In Cushman & Wakefield's experience with Sustainable Urban Extensions, the significant upfront infrastructure costs have often been cause for the landowner to take a conciliatory position on the magnitude and timing of achievable returns, and this experience fits well with the "50% uplift" approach to calculating threshold land value, used in Part 1 of this Draft Local Plan Viability Review, and so which is also used here. The formula for this approach is reiterated here.

*Threshold Land Value (A) = Existing Use Value (B)* ***plus*** *0.5*("Unfettered" scheme residual development value (C)* ***less*** *Existing Use Value (B)). i.e.: -*



### 7.1.1 Existing Use Value (B)

The allocation comprises two sites, as below:

- The Arla Site: A brownfield site of 5.1 ha (12.6 acres)
- The Money Hill Site: A greenfield site in agricultural use, of 128.5 ha (317.4 acres).

Part One of this study established existing use value for agricultural land of £7,500 / acre, and existing / alternative use value for brownfield sites in Ashby of £350,000 / acre. On this basis the existing use value of the site is calculated as £6.791 million, assuming the following:

| | | | |
|---|---|---|---|
| ○ The Arla Site: | 12.6 acres | @ £350,000 / acre: | £4.410 million |
| ○ The Money Hill Site: | 317.4 acres | @ £7,500 / acre: | £2.381 million |

### 7.1.2 Unfettered Market Value (C) with the benefit of planning permission

This is the residual development value of the proposed SUE, using the cost, value assumptions set out in the previous sections, including all on site and access infrastructure requirements, but excluding any Section 106 payments, affordable housing contributions and other policy costs.

This is calculated as around £96.5 million[11]. i.e.

– **Total Development Value** of £**422 million**, *less*

– **Total Development Costs of £319 million** ( including 20% Profit on Value, build costs and professional fees, a 2.5% contingency allowance, finance costs, sales and marketing costs, and site specific development infrastructure of £35 million)

### 7.1.3 Calculation of Threshold Land Value (A)

| | | | |
|---|---|---|---|
| Threshold Land Value (A) | = | (Uplift between (B) and (C) * 50%) | + Existing Use Value |
| | = | (£89.7m*50%) | + £6.71 million |
| | = | £44.85 million | + £6.71 million |
| | = | **£51.56 million** | |

**The suggested Threshold Land Value (A) is £51.5 million** (circa £156,000 / gross acre). This is on the basis of adding £44.85 million (representing half the uplift between the existing use value of the land (B) and the "unfettered" market value of the land with the benefit of planning permission (C)), to the existing use value of £6.71 million, to calculate the land value receipt at which the landowners may become "a willing seller".

[11] After Stamp Duty Land Tax, land acquisition agent and legal fee

## 7.3 Viability Testing

In addition to the site specific requirements set out in Policy H3a, including allocating serviced land for a number of community facilities, the allocation is also tested against a number of other policy requirements.

Part 1 of this study established policy costs relating to certain S106 requirements, in addition to affordable housing. For the purpose of the strategic sits modelling, we have made an allowance of £8,000/dwelling (See Section 2.3) for Section 106 payments. We have also tested affordable housing at 25%, and 30% affordable housing based on the tenure and size mixes modelled in Part 1 of this Draft Local Plan Viability Study. The summary of the viability appraisals is presented below.

| **Affordable %** | **30%** | | | **25%** | | |
|---|---|---|---|---|---|---|
| **Affordable Tenure Blend** | **41% Social /40% Afford. Rent/ 19%Shared** | **21% Social /60% Afford. Rent/ 19%Shared** | **Nil Social /40% Afford. Rent/ 19%Shared** | **41% Social /40% Afford. Rent/ 19%Shared** | **21% Social /60% Afford. Rent/ 19%Shared** | **Nil Social / 40% Afford. Rent/ 19%Shared** |
| **Total Costs** | **£280m** | **£280m** | **£280m** | **£295m** | **£295m** | **£295m** |
| Build (inc. Fees and Contingency) | £152m | £152m | £152m | £156m | £156m | £156m |
| Infrastructure and Section 106 | £49m | £49m | £49m | £49m | £49m | £49m |
| Finance Costs | £14.7m | £14.2m | £13.8m | £12.5m | £12.2m | £11.9m |
| Marketing and Sales | £9m | £9m | £9m | £9.4m | £9.4m | £9.4m |
| Profit | £52.3m | £54.6m | £56.9m | £65m | £67m | £69m |
| **Total Receipts** | **£333m** | **£334m** | **£336m** | **£347m** | **£349m** | **£350m** |
| Land Value (net) | £51.5m | £51.5m | £51.5m | £51.5m | £51.5m | £51.5m |
| **Profit on Value** | **15.9%** | **16.5%** | **17%** | **19%** | **19.5%** | **19.9%** |

## 7.4 Interpreting Viability

Ostensibly, the viability consideration is simply a case of checking that the residual land value of the SUE development (allowing for affordable housing, required Section 106 payments and infrastructure costs) equals or exceeds the threshold land value. If residual land value (allowing for 20% developer profit on value) equals or exceeds threshold land value, then the development is viable, if the residual land value is only achievable at the expense of a reduction in the developer return, then development is marginal (if profit on value is between 17% and 19.9%) or not viable (if the profit on value is less than 17%)..

On this basis, we have considered the viability of the strategic site – a sustainable urban extension of Ashby, assuming various affordable housing proportions (and tenure mixes, within them). The modelling suggests that at 30% affordable housing (the proposed policy position for Ashby), the scheme is marginally viable but only on the basis of a modernised tenure mix (allowing for 81% rented, but with affordable rent entirely substituting social rent), whilst at 25% affordable housing, the scheme is marginally viable across all of the tenure mixes tested.

This represents a slight weakening of viability compared to the situation in 2015, the main driver of this being the reduction in the value of social rented housing. Notwithstanding this, the modelled landowner's return of around £160,000 / gross acre, represents a substantial return for an SUE, in the experience of Cushman & Wakefield the stated target landowner returns have most often been closer to £100,000 / gross acre, whilst they have frequently accepted less than £100,000 / gross acre subject to an overage agreements relating to future increases in value. On this basis, Cushman and Wakefield are of the view that the scheme could viably deliver in the order of 25% - 30% affordable housing.

# 8. Policy H3c – Strategic Site of about 420 dwellings on land off Ashby Road / Leicester Road, Measham

## 8.1 Local Plan Policy and Site Location

Policy H3b proposes a strategic site of about 420 dwellings on land off Ashby Road / Leicester Road, Measham. This site will only be brought forward for development in the event that another site in Measham which has a resolution to grant planning permission is adversely impacted by the route of HS2 such that it could not be developed. The site promoter has suggested slightly less development than that on the preferred site (350 dwellings compared to 420 dwellings). The proposed policy includes the following,: -

[12]Development will be subject to the following:

(i) provision of vehicular access from Ashby Road and Leicester Road and ;

(ii) provision of walking and cycling connections from the site to Measham town centre and existing bus routes and ;

(iii) provision of a range of infrastructure including contributions towards education provision, affordable housing, open spaces, green infrastructure and community facilities and enhanced public transport provision and ;

(iv) design and layout of the proposed development should minimise the impact upon the setting of Measham Conservation Area and;

(v) protection and enhancement of heritage assets, including their setting and;

(vi) provision for the discharge of wastewater into the Mease catchment in accordance with the provisions of policy En2. Development which does not meet these provisions will not be permitted. In addition, development will not be permitted until a second 'development window' for the Developer Contributions Scheme has been agreed and;

(vii) provision of a mineral assessment identifying the potential effect of the proposed development on the mineral resources beneath and adjacent to the site.

[12] Development of this site will be supported in the event that the proposed route of HS2, when confirmed, prohibits the development of land west of High Street Measham (Policy H2i).

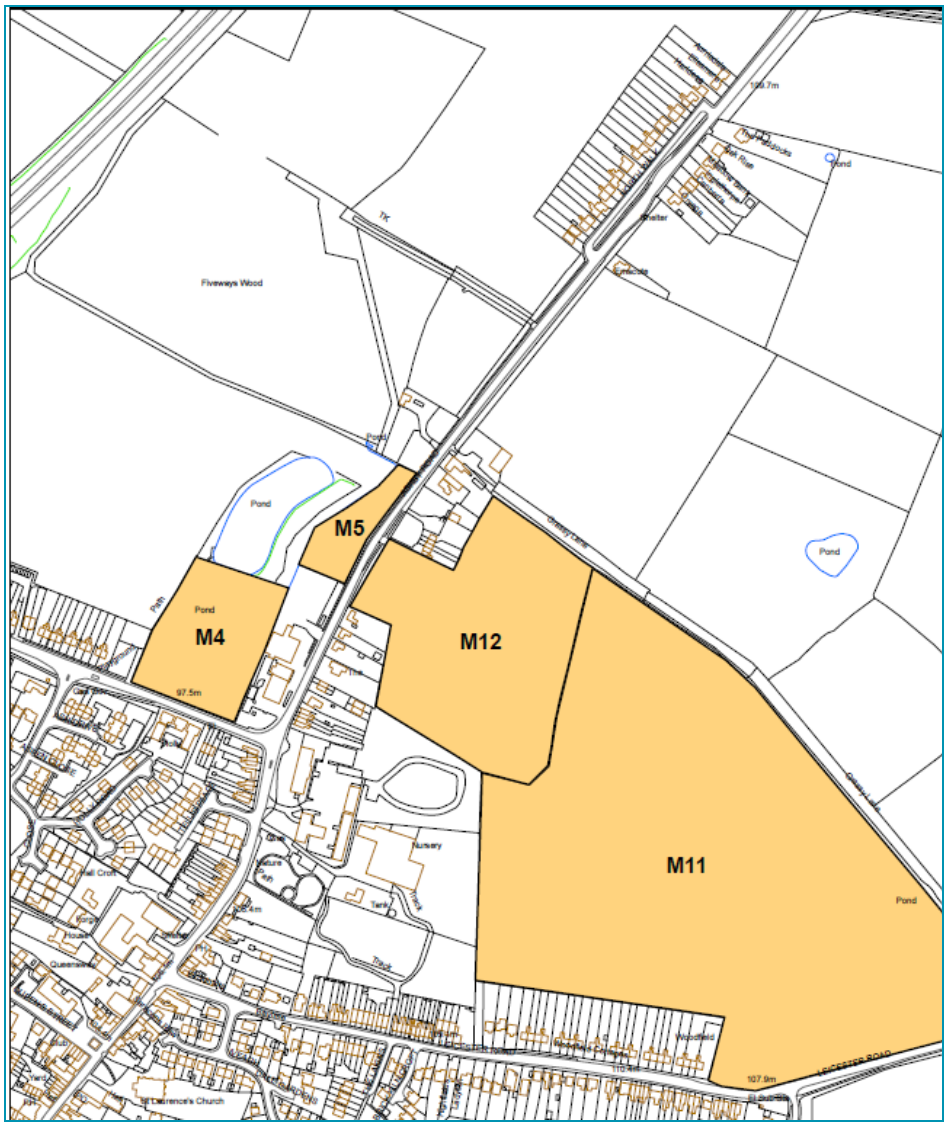
## 8.2 Land at Leicester Road/Grassy Lane, Measham (M11) – 12.01 hectares

The site is located between Leicester Road and Grassy Lane, Measham. The site is Greenfield land, currently used for agricultural purposes. The site is located to the north east of the settlement, with existing housing located to the south of the site. To the west of the site is Rose Bank Nursery, to the north and east of the site is open countryside. The site is partly Grade 3 Agricultural Land (66%) and partly Grade 4 Agricultural Land (34%) and is within the National Forest. The south eastern extent of the site falls within the Highways Consultation Zone. The site is within the River Mease SAC catchment.

## 8.3 Land off Ashby Road, Measham (M12)- 3.4 hectares

The site is located to the east of Ashby Road, Measham. The site is Greenfield land currently used for agricultural purposes. The site is fairly flat and is bound by mature hedgerows and trees. There are residential properties to the north and south of the part of the site fronting Ashby Road. To the north and east of the site is open countryside. The site Grade 4 Agricultural Land and is within the National Forest. The part of the site fronting Ashby Road falls within the Highways Consultation Zone. The site is within the River Mease SAC catchment.

An map extract of the two sites (M12 and M12) from the SHLAA, is presented below



## 8.4 Land Use Schedule

A Land use schedule provided by the site promoter, is presented below.

| | | |
|---|---|---|
| | **Hectares** | **Acres** |
| Residential (350dw @ 32 dph) | 10.9 | 26.93 |
| Open Space / Green Infrastructure | 4.2 | 10.37 |
| **Total** | **15.1** | **37.3** |

# 9. Site Specific Appraisal Assumptions (Measham)

## 9.1 Development Trajectory - Residential

The site promoter has advised that development will average 100 dwellings per annum, allowing for two development outlets, and also including for affordable housing.

For a site of up to 350 dwellings, as currently proposed by the promotor (on the basis of a density of 32 dwellings per net hectare) we would presume up to two development points, each producing around 55 dwellings per annum (including affordable housing). This would suggest a maximum development rate of around 100 - 110 dwellings per year across the H3b allocation, and so a development period of around 4 to 5 years. An indicative trajectory is presented below.

| | Development Year | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Dwellings Completed / annum | 10 | 110 | 110 | 110 | 10 |
| Cumulative Completions | 0 | 120 | 230 | 340 | 350 |

## 9.2 Site Specific Infrastructure Assumptions

Site specific infrastructure requirements are infrastructure elements required to support the development, additional to the normal infrastructure costs associated residential development, and might include distributor roads (in addition to estate / tertiary roads), and additional utilities infrastructure (in addition to usual plot connections)

The site promotors do not envisage any significant on site infrastructure. On this basis, we have made provision for certain elements of onsite infrastructure proportionate to the size of the scheme by adopting an additional 8% external costs allowance, over the standard 12% we used in the Part 1 (Archetypes) modelling.

## 9.3 Section 106 Requirement

An allowance of £8,000 per dwelling has been made[13]. This is consistent with our allowance for the Ashby strategic site, and is of a similar magnitude (£ / dwelling) to other strategic sites with which we have been involved in Leicestershire (and which tend draw higher Section 106 requirements from public bodies than do smaller sites, hence the variation with the £5,000 / dwelling modelled in the Part 1, site archetypes based study).We have presumed inclusion of the following requirements within this S106 allowance:

- Enhanced Connectivity
- Education
- River Mease
- Library
- Healthcare

[13] This is higher than the assumption of £5,000/dwelling used in the Part 1, site archetype, modelling, which referenced the median Section 106 payment agreed at sites across the District. For the purposes of the site specific modelling in Part 2, we have referenced the site specific benchmark information available (relating to the Phase 1 planning application) regarding S106 payments

- Police

## 9.4 Development Values

### 9.4.1 Residential

In close proximity to the site is the David Wilson Homes development, Nursey Gardens, off Bosworth Road. At the time of the 2015 review the site remained in its marketing phase, with asking prices as follows.

| Address | Type | Bedrooms | Sale Price | Approx. Size | £/sqf |
|---|---|---|---|---|---|
| The Hurst | Detached | 4 | £269,995 | 1354 | £199 |
| The Holden | Detached | 4 | £294,995 | 1494 | £197 |
| The Hadley | Detached | 3 | £224,995 | 986 | £228 |

As if May 2016, there have been no resales, though the final home was sold in December 2015 - 26 Pickerings Avenue (circa 1,495sqft), which sold for £290,000 (£194/sqft).

Average net sales values for new build homes in Measham were subject to consultation with stakeholders as part of the district wide viability modelling process (Part 1 of this Local Plan Viability Study), and an average net sales prices in the range of £202 - £207/sqft was agreed (assuming average dwelling sizes 1,200sqft (@30dph) to 1,025 sqft(@35dph).On the basis of the 32dph proposed at the subject site, we have presumed an average size of 1,055sqft, and a £/sqft average value of £207/sqft.

## 9.5 Other Appraisal Assumptions

In the preparation of our appraisal we take into consideration a number of site specific factors, including infrastructure costs, and which have been considered above.

The development appraisal items (A) below are common to all commercial residential developments, irrespective of the size and nature of the scheme.

We have made a series of qualified assumptions (B), based on research presented in the previous sections of this report, and on our own wider experience (C).

| A. Item | B. Assumption | C. Commentary |
|---|---|---|
| **House Build Costs (including estate roads and normal utility services)** | £93/sqft | The scale and location of the development proposition will attract interest from national housebuilders. We have taken this into consideration, also taking a view on a standard of finishes proportionate to the location of the site and the local market. |
| **Professional Fees (including design fees relating to house build costs, and also including reserved matters planning costs)** | 4% | A market rate appropriate to a scheme of this scale. |
| **Build Contingency** | 2.5% | Appropriate to the scale and type of development scheme |
| **Sales and Marketing Costs** | 3% | Appropriate to the scale and type of development scheme. |
| **Debt** | 6.5% | The current market rate. |
| **Profit on Gross Development Value** | 20% | The current market rate. |
| **Market Dwellings - Sales Values (assumed average £/sqft) for the** | £207/sqft | Based on an analysis of local comparables, above (Section 9.4.1). |
| **Market Dwellings – assumed average size** | 1055 sqft | Based on a blend of dwelling sizes consistent 32dph density. |
| **Affordable Dwellings – assumed average size** | 700 sqft | Consistent with the provision made in the Part 1 Assessment (Area Wide Viability Assessment) |
| **Affordable Dwellings – assumed average £/sqft Value** | £93/sqft | Consistent with the provision made in the Part 1 Assessment (Area Wide Viability Assessment) regarding tenure split, and tenure values |
| **Development Rate (Market & Affordable Dwellings)** | Around 110dw/annum | See section 9.1 |

# 10. Viability Modelling (Measham)

## 10.1 Introduction

This section brings the evidence and assumptions of the previous sections together, in the form of a summarised development viability appraisal relating to the strategic site. The results of these appraisals are interpreted, and their meaning for North West Leicestershire District Council in terms of policy approach, is set out.

The site represents a significant development opportunity, reflected in the financial and time resources expended by the land promoter. Whilst relatively small in comparison to the Ashby strategic site, a site of this size will still require an element of enabling infrastructure works, and it remains a requirement to test the extent to which the scheme can deliver this infrastructure whilst also delivering policy compliant affordable housing and section 106 packages, and delivering competitive returns to a willing developer and a willing land owner, as set out in paragraph 73 of the National Planning Policy Framework:

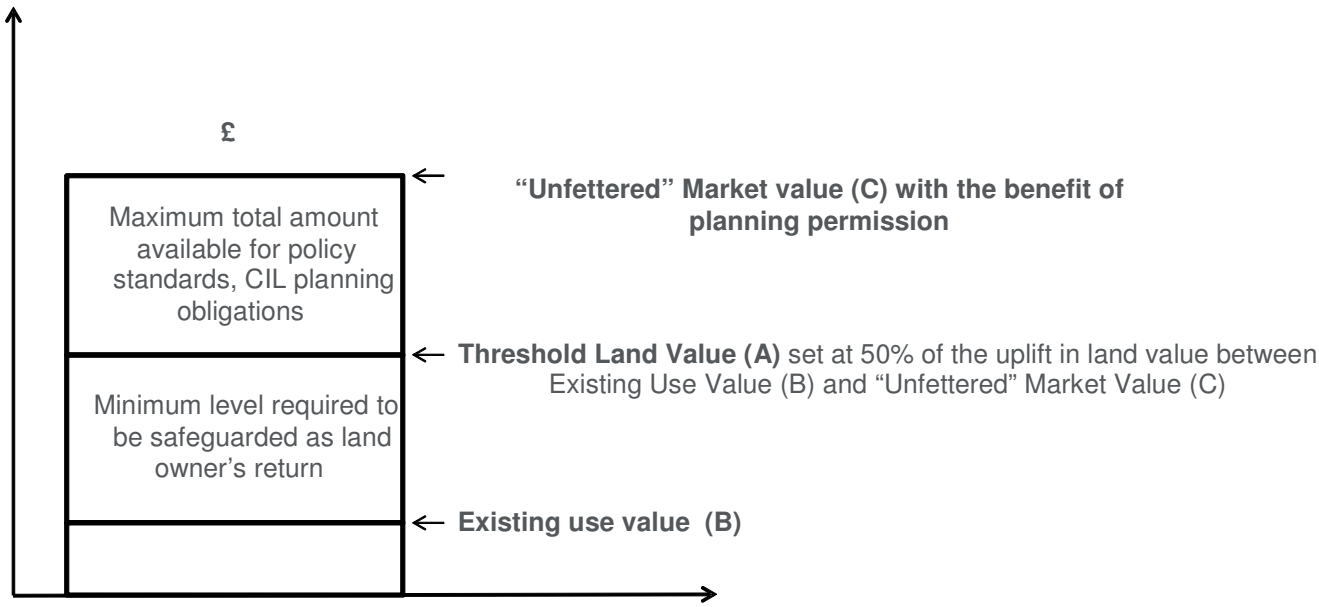
*"To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."*

## 10.2 Land Owner Return / Threshold Land Value

As previously set out, the issue of landowner return / threshold land value is critical to assessing development viability. Paragraph 173 of the National Planning Policy Framework states that the return shall be sufficient for a "willing landowner"; Viability Testing Local Plans, Advice for Planning Practitioners (Local Housing Delivery Group; June 2012) states that the Threshold Land Value should represent the value at which a typical "willing landowner" is likely to release land for development, before payment of taxes (such as capital gains tax), allowing for a certain premium over the existing/alternative use value.

This Local Plan Viability Study has adopted the "50% uplift" approach to calculating threshold land value, used in Part 1 of this Draft Local Plan Viability Review, and so which is also used here. The formula for this approach is reiterated here.

*Threshold Land Value (A) = Existing Use Value (B)* ***plus*** *0.5*("Unfettered" scheme residual development value (C)* ***less*** *Existing Use Value (B)). i.e.: -*




### 10.2.1 Existing Use Value (B)

The allocation is currently in agricultural use.

Part One of this study established existing use value for agricultural land of £7,500 / acre. On this basis the existing use value of the site is calculated as £0.28 million, assuming the following:

| | | | |
|---|---|---|---|
| ○ Gross Area of Site: | 37.3acres | @ £7,500 / acre: | £279,750 |

### 10.2.2 Unfettered Market Value (C) with the benefit of planning permission

This is the residual development value of the proposed strategic site, using the cost, value assumptions set out in the previous sections, including all on site and access infrastructure requirements, but excluding any Section 106 payments, affordable housing contributions and other policy costs.

This is calculated as around £16,100,000[14] i.e.

– **Total Development Value of £76.4 million**, less

[14] After Stamp Duty Land Tax, land acquisition agent and legal fees; figures subject to rounding

– **Total Development Costs of £59.2 million** ( including 20% Profit on Value, , build costs and professional fees, a 2.5% contingency allowance, finance costs, sales and marketing costs, and site specific development infrastructure of £2.5 million)

### 10.2.3 Calculation of Threshold Land Value (A)

| | | | |
|---|---|---|---|
| Threshold Land Value (A) | = | (Uplift between (B) and (C) * 50%) | |
| | | + Existing Use Value | |
| | = | (£15.8m*50%) | + £279,750 |
| | = | £7.9 million | + £279,750 |
| | = | **£8.2 million** | |

**The suggested Threshold Land Value (A), for the purposes of this study, is £8.2 million** (circa £220,000 / gross acre[15]). This is on the basis of adding £8.05 million (representing half the uplift between the existing use value of the land (B) and the "unfettered" market value of the land with the benefit of planning permission (C)), to the existing use value of £279,750, to calculate the land value receipt at which the landowners may become "a willing seller".

[15] This is a higher £/acre rate of return for the landowner than for the Ashby site, reflecting both the lower infrastructure costs assumed for the Measham site, and the lower residential sales values compared to Ashby.

## 10.3 Viability Testing

In addition to the site specific requirements set out in Policy H3c, the allocation is also tested against a number of other policy requirements.

Part 1 of this study established policy costs relating to certain S106 requirements, in addition to affordable housing. For the purpose of the strategic sits modelling, we have made an allowance of £8,000/dwelling (See Section 2.3) for Section 106 payments. We have also tested affordable housing at 25%, and 30% affordable housing based on the tenure and size mixes modelled in Part 1 of this Draft Local Plan Viability Study.

The summary of the viability appraisals is presented below.

| Affordable % | 30% | | | 25% | | |
|---|---|---|---|---|---|---|
| **Affordable Tenure Blend** | **41% Social /40% Afford. Rent/ 19%Shared** | **21% Social /60% Afford. Rent/ 19%Shared** | **Nil Social /40% Afford. Rent/ 19%Shared** | **41% Social /40% Afford. Rent/ 19%Shared** | **21% Social /60% Afford. Rent/ 19%Shared** | **Nil Social / 40% Afford. Rent/ 19%Shared** |
| **Total Costs** | **£51.3m** | **£51.3m** | **£51.3m** | **£54.9m** | **£54.9m** | **£54.9m** |
| Build (inc. Fees and Contingency) | £32.9m | £32.9m | £32.9m | £33.5m | £33.5m | £33.5m |
| Infrastructure and Section 106 | £5m | £5m | £5m | £5m | £5m | £5m |
| Finance Costs | £1.6m | £1.6m | £1.6m | £1.5m | £1.5m | £1.5m |
| Marketing and Sales | £1.6m | £1.6m | £1.6m | £1.7m | £1.7m | £1.7m |
| Profit | £10.3m | £10.7m | £11m | £12.4m | £12.5m | £12.9m |
| **Total Receipts** | **£60.2m** | **£60.5m** | **£60.8m** | **£62.8m** | **£63.1m** | **£63.3m** |
| Land Value (net) | £8.3m | £8.3m | £8.3m | £8.3m | £8.3m | £8.3m |
| **Profit on Value** | **17.2%** | **17.7%** | **18.1%** | **19.6%** | **19.9%** | **20%** |

The modelling suggests that the scheme is viable at 25% affordable housing, assuming all the rented affordable tenure is affordable rent, with additional affordable housing (above 25%), and the inclusion of social rented tenure, suggesting a marginal scheme.

## 10.4 Interpreting Viability

Ostensibly, the viability consideration is simply a case of checking that the residual land value of the development (allowing for affordable housing, required Section 106 payments and infrastructure costs) equals or exceeds the threshold land value. If residual land value (allowing for 20% developer profit on value) equals or exceeds threshold land value, then the development is viable, if the residual land value is only achievable at the expense of a reduction in the developer return, then development is marginal (if profit on value is between 17% and 19.9%) or not viable (if the profit on value is less than 17%)..

On this basis, we have considered the viability of the strategic site, assuming various affordable housing proportions (and tenure mixes, within them). The modelling suggests that the scheme is viable at 25% affordable housing, assuming all the rented affordable tenure is affordable rent. This represents a slight weakening of viability compared to the situation in 2015, the main driver of this being the reduction in the value of social rented housing. Notwithstanding this performance, Cushman & Wakefield is of the view that the scheme is viable in the context of other policies in the

Proposed Publication Local Plan. To illustrate this point, the appraisal has been sensitivity tested using "blended"[16] profit targets, which take in to account the reduced development risk associated with the varying rates of affordable housing.

| Affordable % | 30% | | | 25% | | |
|---|---|---|---|---|---|---|
| Affordable Tenure Blend | 41% Social /40% Afford. Rent/ 19%Shared | 21% Social /60% Afford. Rent/ 19%Shared | Nil Social /40% Afford. Rent/ 19%Shared | 41% Social /40% Afford. Rent/ 19%Shared | 21% Social /60% Afford. Rent/ 19%Shared | Nil Social / 40% Afford. Rent/ 19%Shared |
| "Blended" Profit target | 18.3% | 18.3% | 18.4% | 18.8% | 18.7% | 18.7% |
| Performance of scheme (Profit on Value), assuming target land owner return achieved | 17.2% | 17.7% | 18.1% | 19.6% | 19.9% | 20% |

The sensitivity testing shows that for a scheme with 25% affordable housing, the profit target is exceeded, whilst for a scheme with 30% affordable housing the projected profit falls short of the target by between half and one percentage point (depending on the affordable tenure blend). This suggests that it would be reasonable to assume that the scheme could viably deliver in the region of 25 – 30% affordable housing, in the context of other policies in the Proposed Publication Local Plan.

[16] The blended profit target is calculated on the basis of 20% of the gross development value of the private sales, and 6% of the gross development value of the affordable housing, and then expressed as a % of gross development value

# Appendix 1: Stakeholder[17] Response Received

[17] A range of developers, landowners and promotors were contacted by e-mail; 65 confirmed deliveries

| Respondent No. 1. | Stakeholders Comments | Cushman & Wakefield Comments | Action |
|---|---|---|---|
| **With regard to Policies that may have a direct bearing on viability of new development** | | | |
| We support affordable housing development. At present the Strategic Housing Market Assessment (SHMA) defines affordable housing as affordable / social rented housing and intermediate housing which includes shared ownership products. We assume that the definition used here is the same. | | The definition is the same. | - |
| How will the introduction of Starter Homes impact on :<br>a) The definition of affordable housing?<br>b) Delivery of affordable housing in relation to identified needs within the existing definition and product types? | | Beyond the scope of this particular study, but a question that NWLDC will consider the implication of as more details from Government emerge | - |
| The cascade in terms of CIL should not leave the provision of affordable housing at the bottom although we do recognise the need for other infrastructure requirements.<br><br>The introduction of Starter Homes (SH) will not meet the identified / priority housing needs which have been met historically through this requirement on S106 sites.<br><br>Therefore our concern is the impact of SH in terms of reducing on site affordable housing provision. | | Noted but beyond the scope of this particular study | - |
| **D1 - Design of New Development** | | | |
| Note that the Council will be preparing a Supplementary Document on Design and we assume that there will be consultation on the draft for partners to comment on and presumably also neighbouring local authorities. | | - | - |
| **H5 - Affordable Housing** | | | |
| In terms of the % affordable housing requirements in various settlements - our concern is with how this will be affected by the introduction of SH competing with traditional affordable products in terms of this requirement. | | Noted but beyond the scope of this particular study | |
| Item (5) - *[The Council will encourage the provision of affordable homes to meet the need of elderly people. Where bungalow provision is made the Council will consider reducing the overall level of affordable housing contribution, having regard to the type and size of other affordable housing provided across the site]* Presumably this will | | - | - |

| Respondent No. 1. | Stakeholders Comments | Cushman & Wakefield Comments | Action |
|---|---|---|---|
| include scheme development viability. | | | |
| **H6 - Housing Types and Mix** | | | |
| How will Starter Homes fit into this policy? | | Noted but beyond the scope of this particular study | - |
| **With regard to Allowances made for Local Plan policies identified as having a direct bearing on viability** | | | |
| IF1 - We assume that this [£5,000 S106 allowance per dwelling] excludes affordable housing on site or commuted sums in lieu? | | Correct, the £5,000 S106 allowance per dwelling, and the evidence supporting this, relates to S106 contributions other than affordable housing on site or commuted sums in lieu? | - |
| **Affordable Housing** | | | |
| The % of Market Value for the three affordable housing products reflect currently the lower end and could be 5% on average more. | | Noted, though testing at the lower end of the range is consistent with a viability testing and plan making approach that avoids planning to the "margins of viability". | - |
| Offers on affordable housing schemes depend on capacity and appetite at any given time. | | Noted, and our cautious approach, taking the lower end of the range in terms of % of Market Value is mindful of this. | - |
| We do not calculate with reference to % of open market value. Rents are used to calculate our offers and values will vary. Therefore there is a risk in setting a % figure for any period - how long is this policy going to last? | | Noted, though the % of open market value approach provides a reasonable proxy for the purpose of high level viability modeling | - |
| Affordable Housing Unit Sizes - Could this be a little more sophisticated by referencing Page 12 the unit types for affordable housing and use this to then model using HQI sizes for each unit type. | | Noted, though in relation to comments received during the 2015 consultation from a Housing Association, we reduced the average size modelled from 775sqft to 700sqft. The 700sqft used is based on minimum HQI sizes provided by the consultee and the mix proposed by Policy H6. | - |
| **Public Subsidy** | | | |
| Note that in terms of public subsidy through the Homes and Communities Agency for 2016-2021 most of the funding is for shared ownership on non - s106 sites. | | Noted, though all sites tested for the purposes of this study are S106 sites | - |