

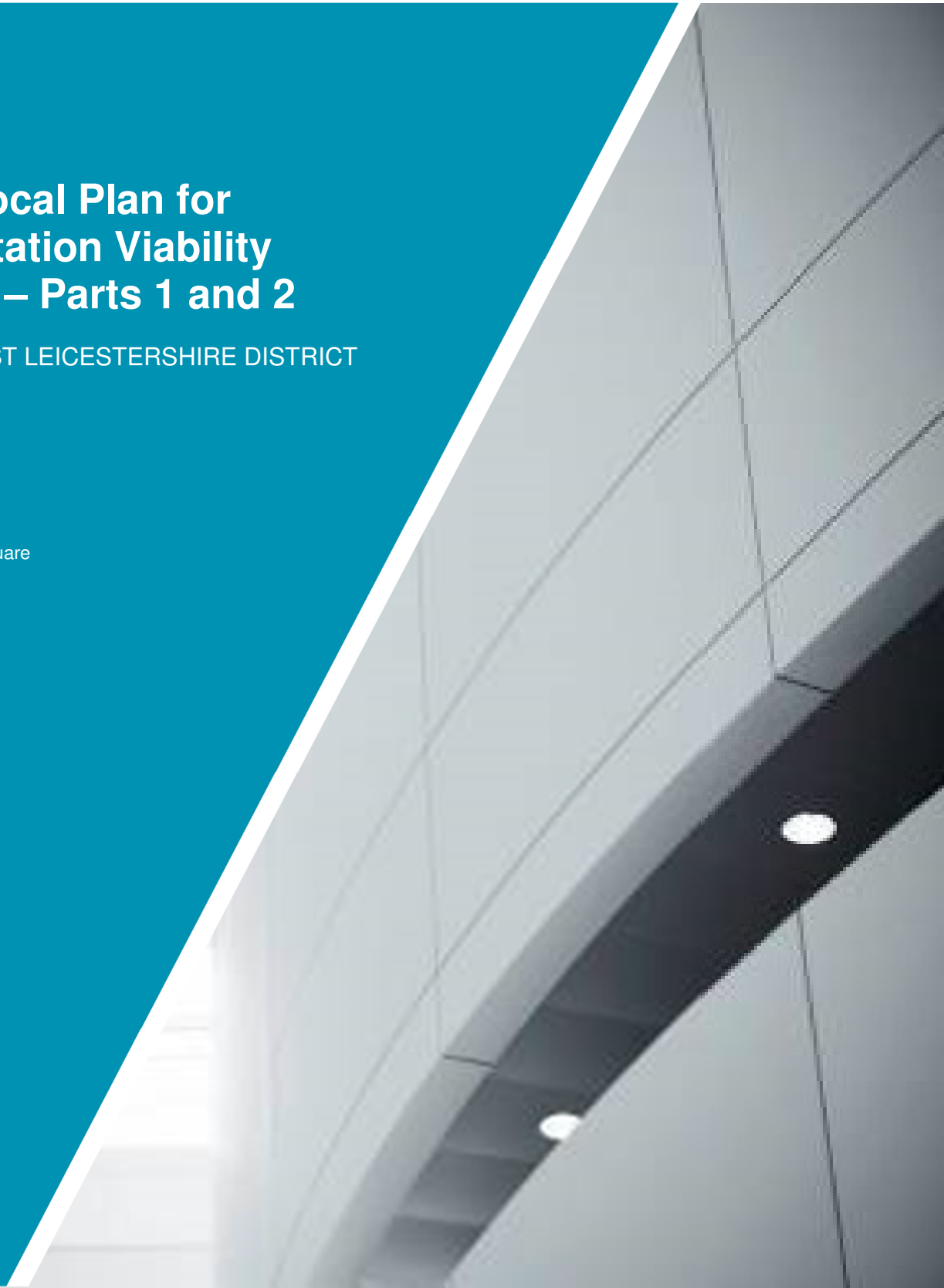


Draft Local Plan for Consultation Viability Review – Parts 1 and 2

NORTH WEST LEICESTERSHIRE DISTRICT
COUNCIL

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Executive Summary

North West Leicestershire is preparing a draft Local Plan for consultation.

North West Leicestershire District Council appointed DTZ to carry out a whole plan viability study to look at the potential impact of all the policies in the Draft Local Plan upon the viability of new development, and in particular test a number of affordable housing options in the context of such a review.

The study is an assessment of the viability of the cumulative impact of the Draft Local Plan's policies on viability, 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 four parts: -

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. Whilst it is the case that most new housing is already committed, or is proposed to be delivered through a proposed strategic allocation in Ashby (or at a reserve site in Measham) there may be additional sites which come forward during the plan period
2. Site specific viability reviews of strategic allocations at Ashby and Measham (reserve)
3. A consideration of the potential of a standalone settlement of some 2,000 dwellings
4. A viability review of three consented strategic schemes

This report comprises Part 1 and Part 2 of the Study, considering the impact of policies on the deliverability of unconsented sites likely to come forward over the period of the Local Plan. Parts 3 and 4 are considered in separately issued reports.

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

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 to reflect the range, type of sites and locations likely to come forward, based on the Five Year Land Supply (December 2014), and consultation with NWLDC

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.

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 28 development site archetypes, as a representative sample of sites proposed to come forward.

The 28 development site archetypes have been tested for delivery viability against draft local plan policies considered to have a direct or indirect effect on development viability – specifically, affordable housing, open space requirements, sustainable energy & construction, and the requirements to enter into Section 106 agreements.

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.**”

NWLDC asked DTZ to consider a number of affordable housing scenarios. The modelling suggests that, of the affordable housing options proposed, “Variable 1” was the best fit with the results of the viability modelling. i.e.

Settlement	% Affordable Housing
Ashby de la Zouch	30%
Castle Donington	30%
Coalville Urban Area	20%
Kegworth and Measham	30%
All other settlements	30%

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

- 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 site archetypes in the current market environment, and on all 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 archetypes in the growth scenario.

Certain sites in Ashby may be able to exceed a 30% target quite comfortably, and, conversely, a certain proportion of sites in Castle Donington, Kegworth and Measham may not be able to achieve 30% (notwithstanding the effect of abnormal). It is not the role of this assessment, however, to consider additional affordable housing options to those considered by NWLDC, which have been shaped, we understand, by a number of other considerations material to policy making and the development management process.

This suggestion regarding “best fit” is made on the understanding that the majority of development across the District over the Plan period will be on Greenfield sites. Notwithstanding this, Brownfield sites will still have a notable complementary role in housing delivery over the Plan Period.

The modelling, in both market scenarios, suggests that the with the generally higher threshold land values that landowners of brownfield land may require (particularly in Coalville and Kegworth due to relatively high existing or alternative use values relating to employment), 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 (possibly zero affordable housing contributions in some cases, and to a slightly lesser extent in Kegworth, due to high employment land values). The issue is less acute in Measham, as employment land values here are notably less than in Coalville and Kegworth.

Additional sense testing (assuming the current market environment) was undertaken assuming a 0.55 hectare brownfield site archetype, and whilst this archetype performed slightly better compared to the 1 hectare archetype, the performance improvement was not significant. For example the Coalville archetype was still shown as being unviable, even allowing for no Section 106 contributions.

Notwithstanding this, we understand 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 encouraging².

² 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.

Caution should be applied with regard to setting a rate for “other settlements”, on the basis that this includes the Local Service Centre of Ibstock, which our modelling suggest may struggle to achieve 20% affordable housing. Also “other settlements” include for numerous settlements across the District which fall into different value areas.

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 modelled³, 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.

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) than 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 – Review of Strategic Sites

This element of the Local Plan Viability Study has assessed two actual proposed strategic sites (one of which is a reserve allocation), in Ashby (Policy H3a) and in Measham⁴ (Policy H3b).

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 vehicular access from the A511 (the principal access route), Smisby Road (the secondary access point) and Nottingham Road (restricted to a maximum of 70 dwellings).
- (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;
- (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

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

⁴ 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 H2m).

- (iv) provision of a range of infrastructure including a new primary school, extensions to secondary schools, open spaces, green infrastructure and community facilities and enhanced public transport provision.

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, Smithsby Road, Ashby, expected to accommodate about 150 dwellings

Policy H3b proposes a strategic site of about 420 dwellings on land off Ashby Road / Leicester Road, Measham, including for the following: -

- (i) Provision of vehicular access from Ashby Road and Leicester Road
- (ii) Provision of walking and cycling connections from the site to Measham town centre and existing bus routes; provision of a range of infrastructure including contributions towards education provision, open spaces, green infrastructure and community facilities and enhanced public transport provision.

The proposal is split over two SHLAA sites:

- Site M11: Land at Leicester Road / Grassy Lane, Measham - 12.01 hectares
-
- Site M12: Land off Ashby Road, Measham – 3.4 hectares

The site promoters of both sites were contacted for site specific information regarding their sites, which informed the high level DTZ appraisals. Both sites were found to be broadly viable in the context of the policies proposed in the draft local plan⁵.

⁵ Sensitivity testing suggested they would be able to deliver in the region of 25-30% affordable housing

Introduction

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The study has four parts: -

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2. Site specific viability reviews of proposed strategic allocations at Ashby and Measham
3. A consideration of the potential of a standalone settlement of some 2,000 dwellings
4. A viability review of three consented strategic schemes

A questionnaire relating specifically to the archetypal sites within the District was circulated to the development stakeholders in the District to inform Part 1 of the study, whilst contact was made with the site promoters of the strategic sites (Part 2) in order to ensure the study was able to benefit from a consideration the most up to date and detailed, site specific information.

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 28 development site archetypes, reflective of the pattern of sites which may come forward over the Local Plan period, have been tested for delivery viability against draft local plan policies – specifically affordable housing (H4, H6) and Section 106 contributions (IS1, IS3, EN4, EN5) open space (IS3), and Sustainable Design and Construction requirements (S5, CC4, CC22).

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 Draft Local Plan for Consultation

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 to reflect the range, type of sites and locations likely to come forward, based on the Five Year Land Supply (December 2014), and consultation with NWLDC

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.⁶ 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).

⁶ This valuation approach is applied for property with development or redevelopment potential. This equation is: Completed Development Value less Planning and Construction 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, DTZ 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 28 development site archetypes, as a representative sample of sites proposed to come forward.

The 28 development site archetypes have been tested for delivery viability against draft local plan policies considered to have a direct or indirect effect on development viability – specifically, affordable housing, open space requirements, sustainable energy & construction, 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 viable⁷). 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 will 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 development density.

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).

⁷ 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.

1.5. Affordable Housing Policy Scenarios Sense Testing

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

Settlement	A Standard Rate across the District (10 or more dwellings)					Variable Rates by Settlement			
	0%	20%	25%	30%	60%	Variable 1	Variable 2	Variable 3	Threshold
Ashby de la Zouch						30%	25%	40%	15 or more
Castle Donington						30%	25%	30%	15 or more
Coalville Urban Area						20%	15%	20%	15 or more
Ibstock						20%	15%	20%	11 or more or 1,000sqm (gross) floor space
Kegworth						30%	25%	30%	11 or more or 1,000sqm (gross) floor space
Measham						30%	25%	30%	11 or more or 1,000sqm (gross) floor space
All other settlements						30%	25%	25%	11 or more or 1,000sqm (gross) floor space

1.6. Market Change Sense Testing

The agreed valuation date of May 2015 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 respond to the recovery in demand.

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 4% over the lifetime (16 years) of the Local Plan. This is modelled assuming annual net price growth of 0.5%⁸ over half (eight)⁹ the 16 years of the local plan to 2031.

⁸ 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.

⁹ 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 Draft Local Plan for Consultation sets a number of policy requirements that may have financial implications which development in the District must accord with. The Draft Local Plan was reviewed on the basis of identifying these policies.

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

- Sustainable Development (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. The section also considered design of new development (S5), which we identified as having a potential financial impact on development costs
- 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 Services (IS): 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 IS1. Two of the policies relate to specific infrastructure contributions, which cannot be modelled at this stage, and should be considered as an abnormal development cost at the development management stage.
- 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 four 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. Cc3 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. Cc2, relating to Sustainable Design and Construction, and Cc4, relating to SUDs, where 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								
IS1	<i>Development & Infrastructure</i>	<p>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.</p> <p>The type of infrastructure required to support new development includes, but is not limited to:</p> <ul style="list-style-type: none"> • Affordable housing; • Community Infrastructure including education, health and other public services; • Transport including highways, footpaths and cycleways, public transport and associated facilities; • Green infrastructure including open space, sport and recreation, national forest planting and provision of or improvements to sites of nature conservation value; • The provision of superfast broadband communications; • Utilities and waste and; • Flood prevention and sustainable drainage <p>The infrastructure secured (on or off-site) will be provided either as part of the development or through a financial contribution (with due regard to viability issues) to the appropriate service provider.</p>								
IS3	<i>Open Space, Sport and Recreational Facilities</i>	<p>In summary, setting out open space requirements for schemes of 50 or more dwellings, with reference to national standards (below), and the nature and location of the proposed development.</p> <table border="1" data-bbox="692 1615 1233 2000"> <thead> <tr> <th data-bbox="692 1615 906 1686">Open Space Type</th> <th data-bbox="911 1615 1233 1686">National Standard</th> </tr> </thead> <tbody> <tr> <td data-bbox="692 1686 906 1825">Children’s Playing Space</td> <td data-bbox="911 1686 1233 1825">FIT: 0.8 ha per 1,000 people of which 0.25ha should be designated equipped playing space.</td> </tr> <tr> <td data-bbox="692 1825 906 1897">Outdoor Sports</td> <td data-bbox="911 1825 1233 1897">FIT : 1.6 ha per 1,000 people</td> </tr> <tr> <td data-bbox="692 1897 906 2000">Allotments</td> <td data-bbox="911 1897 1233 2000">NSALG: 20 standard plots of 250 square metres per 1,000 households</td> </tr> </tbody> </table>	Open Space Type	National Standard	Children’s Playing Space	FIT: 0.8 ha per 1,000 people of which 0.25ha should be designated equipped playing space.	Outdoor Sports	FIT : 1.6 ha per 1,000 people	Allotments	NSALG: 20 standard plots of 250 square metres per 1,000 households
Open Space Type	National Standard									
Children’s Playing Space	FIT: 0.8 ha per 1,000 people of which 0.25ha should be designated equipped playing space.									
Outdoor Sports	FIT : 1.6 ha per 1,000 people									
Allotments	NSALG: 20 standard plots of 250 square metres per 1,000 households									

Policy Ref	Policy Subject	Policy Summary
En4	<i>River Mease Special Area of Conservation</i>	<p><u>Relating to the objective</u> of improving the water quality of the river Mease Special Area of Conservation.</p> <p>Where appropriate, the provision of infrastructure or water quality improvements proposed in the existing Developer Contributions Scheme.</p>
En5	<i>National Forest</i>	<p>New developments within the National Forest will contribute towards the creation of the forest by including provision of tree planting and other landscape areas within them and/or elsewhere within the National Forest in accordance with National Forest Planting Guidelines. Landscaping will generally involve woodland planting, but can also include the creation and management of other appropriate habitats, open space provision and the provision of new recreational facilities. The appropriate mix of landscaping features will depend upon the setting and the opportunities that the site presents.</p> <p>In exceptional circumstances, a commuted sum may be agreed where planting and landscaping cannot be accommodated within or close to the development site. This will be used to purchase land for planting, create new woodland, provide public access to it and maintain the site for at least 5 years.</p> <p>The area between Ashby de la Zouch, Measham and Swadlincote will be recognised as 'The Heart of the National Forest' new development will be exemplars of sustainable design and construction, with an emphasis upon the use of Forest-themed construction materials where appropriate.</p>
CC2	<i>Sustainable Design and Construction: Document 6 of Building Regulations</i>	Alongside references to promoting resilience to higher temperatures and intense rainfall, the policy states that, subject to appropriateness and viability, development should incorporate water efficiency measures compliant with Document G of the Building Regulations (rate of 110 litres per day)
CC4	<i>Sustainable Urban Drainage Systems</i>	<u>Subject to requirement and viability.</u>
S5	<i>Design of New Development Policy S5</i>	Development will be supported against quality criteria including the North West Leicestershire Place Making Principles and the Building for Life 12 design quality indicator.
H4	<i>Affordable Housing</i>	<u>Affordable Housing Requirements: % rates and thresholds to be tested as part of this viability review.</u>
H6	<i>Housing Types and Mix</i>	Will seek a mix of housing types, size and tenures in all new housing developments in order to meet the identified needs of the whole community.

Policy Ref	Policy Subject	Policy Summary															
		<p>For proposals of 10 or more dwellings, will include reference to evidence including the most up to date Strategic Housing Market Assessment, which proposes the following mix of dwellings with a view to seeing more smaller dwellings developed in order to address need:-</p> <table border="1"> <thead> <tr> <th>Type of Housing</th> <th>1 bed</th> <th>2 bed</th> <th>3 bed</th> <th>4 bed</th> </tr> </thead> <tbody> <tr> <td>Market</td> <td>5-10%</td> <td>35-40%</td> <td>45-50%</td> <td>10-15%</td> </tr> <tr> <td>Affordable</td> <td>33.3%</td> <td>35.2%</td> <td>28.9%</td> <td>2.5%</td> </tr> </tbody> </table> <p>The policy also states that developments of 50 or more dwellings will be expected to provide a proportion of dwellings that are suitable for occupation by the elderly, including bungalows; and proportion of dwellings which are suitable for occupation or easily adaptable for people with disabilities in accordance with Part M4(2) of the Building Regulations, though Policy H4 (affordable housing) suggests this may be offset against affordable housing requirement.</p>	Type of Housing	1 bed	2 bed	3 bed	4 bed	Market	5-10%	35-40%	45-50%	10-15%	Affordable	33.3%	35.2%	28.9%	2.5%
Type of Housing	1 bed	2 bed	3 bed	4 bed													
Market	5-10%	35-40%	45-50%	10-15%													
Affordable	33.3%	35.2%	28.9%	2.5%													

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
IS1	Development & Infrastructure ¹⁰	£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 just under £4,000 / dwelling. This is inclusive of contributions required under policies relating to the River Mease and the National Forest. For the purposes of the modelling (See also S5), this figure has been rounded up to £5,000 / dwelling

¹⁰ Excluding abnormal, site specific, infrastructure costs, such as spine roads, and additional utilities infrastructure required such as new sub stations)

Policy Ref	Policy Area	£ Allowance / dwelling	Assumption
IS3	Open Space and Recreational Facilities	Refer to IS1	Maintenance contributions have been included in the calculation behind the allowance of £5,000 / dwelling, above
EN4	River Mease Special Area of Conservation	Refer to IS1	Contributions have been included in the calculation behind the allowance of £5,000 / dwelling, above
EN5	National Forest	Refer to IS1	Contributions have been included in the calculation behind the allowance of £5,000 / dwelling, above
CC2	Sustainable Design and Construction: Document G of Building Regulations.	No extra over costs identified with compliance	<p>Planning Practice Guidance suggests that where evidence is available the revised rate of 110 litres per day included in Document G of the Building Regulations as an optional requirement can be sought.</p> <p>The extra over costs (if any in relation to standard specifications) per dwelling in relation to the enhanced sanitary taps, shower heads, and alternative connections for washing machines and dishwashers are not discernible on an additional £/sqft basis</p>
CC4	SUDs	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. In circumstances where SUDs are required, this will be treated as a site specific abnormal cost
S5	<u>Design of New Development Policy S5: Design of new development</u> Development will be supported against criteria including the North West Leicestershire Place Making Principles or the Building for Life 12 design quality indicator	No extra over costs identified with compliance	<p>Design principles assumed to be readily achievable by way of appropriate dialogue through the development management process.</p> <p>In some cases, there may be an impact upon development density, but this can only be identified on a site by site basis.</p> <p>Building for Life 12 states that “<i>it may be possible to adapt elevations of standard house types to complement local character</i>”. Whilst there is the potential for an element of extra over cost in relation to enhancements to the elevations of standard house types, we would estimate this to be under £1,000 / dwelling in relation to facings, and in this respect allowance has been made</p>

Policy Ref	Policy Area	£ Allowance / dwelling	Assumption
			for this potential cost in the modelling through the rounding up of the potential S106 contribution to £5,000 (NWLDC evidence suggests a median average payment of just under £4,000 / dwelling). We would consider additional treatments as an abnormal cost,
H4	Affordable Housing	Refer to Sections 3.3.1 and 3.3.2, regarding assumptions made	
H6	Housing Types and Mix	Refer to Section 3.3.2 regarding assumptions made	

2.2. Timing of This Study

The agreed valuation date of May 2015 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 2015), 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.

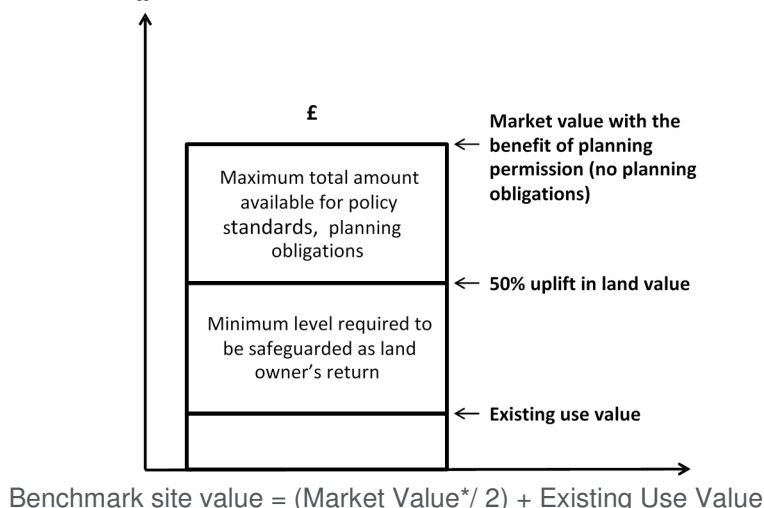
Whilst there appears to be an inconsistency in the recommendations of the two guidance documents, both effectively recommend that site value thresholds for area wide viability studies should be set somewhere between existing use/credible alternative use and market values assuming planning permission 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 acre¹¹
 - Brownfield employment land use¹²
 - Coalville Urban Area, Castle Donington and Kegworth: £325,000/ net acre
 - A42 Corridor: £275,000 / net acre
 - Elsewhere: £125,000 / 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:



¹¹ <https://www.smithsgore.co.uk/Pages/DocumentManager/Farmland%20Market%20Review%202014.pdf>

¹²Typical benchmark values sourced from DTZ Industrial Agency

*market value is the residual land value of the archetype assuming planning permission for the proposed development, excluding the costs of any planning obligations.

3.2. Approach

As outlined in Section 1, DTZ 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. 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 4%.

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 S3 of the Draft 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 Draft 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.

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

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

The Key Service Centres (both prime market areas) – assuming Greenfield development

- Ashby de la Zouch
- Castle Donington

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

- Kegworth and Measham

Local Service Centre (and smaller) in Secondary Market Areas – assuming greenfield development

- Ilstock

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 analysis of the 5 Year Housing Land Supply, consultation with NWLDC and the stakeholders, the following site sizes, and densities were modelled for each of the market areas.

Figure 3.1: Viability Modelling Archetypes

Market Band	Value	Settlement Status	Context	Site Size (Gross) ha	Density (Dwellings per net developable hectare)
Prime	Key Service Centres (Castle Donington & Ashby)	Greenfield	5	35	
				30	
			1	35	
				30	
	Local Service Centre or smaller (Kegworth and Measham)	Greenfield	5	35	
				30	
		Brownfield	5	35	
				30	
			1	35	
				30	
Secondary	The Coalville Urban Area	Greenfield	5	35	
		Brownfield	5	35	
			1	35	
	Local Service Centre (e.g. Ibstock) or smaller	Greenfield	1	35	

Taking into account all the above combinations (market, site size and density), a total number of 28 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. DTZ’s residential team reviewed this data and adjusted the values according to valuation evidence and their experience of new build prices in each of the market areas. 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)

£ / sq ft by Market Area				
Prime			Secondary	
Ashby Key Service Centre ¹³	Castle Donington Key Service Centre ¹⁴	Kegworth and Measham Local Service Centres (and smaller rural centres) ¹⁵	Coalville Urban Area	Ibstock Local Service Centre (and smaller rural centres)
Assumed Av. Size 1025sqft	Assumed Av. Size 1025sqft	Assumed Av. Size 1200sqft	Assumed Av. Size 1025sqft	Assumed Av. Size 1025sqft
225	205	200	175	175

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 40% of Open Market Value across all the market areas, for social rented, 45% for Affordable Rent, and 60% for shared ownership.

The tenure split analysed is 81% Social / Affordable Rent (split evenly) and 19% Shared Ownership, as outlined in the Draft Local Plan for Consultation. It is often the case that with regard to the breakdown between social and affordable rent, in practice most schemes will be of one or the other.

Whilst, for the purposes of clarity, the modelling results are presented on the basis of a blended figure so as to accord with the Local Plan, we have considered the implications of this observation in our overall analysis of the modelling. Given the relatively slight “premium” of affordable rented values over social rented values, the difference is marginal.

3.3.2. Unit Area Assumptions

The £ per square foot values (both market and affordable) are combined with assumptions on unit area sizes to generate total unit prices. The unit area assumptions, based upon DTZ’s market knowledge (and subject to consultation) are shown in Figure 7.3 below.

Figure 3.3 Unit Areas (Net Sales Area) for Open Market Dwellings

Prime Value @ 35dph	Prime Value @ 30dph	Secondary Value @ 35dph
1025	1200	1025

For affordable dwellings we have assumed an average size of 700 square feet.

¹³ Assuming 35dph, a 30dph variant archetype was also tested assuming 1200sqft at £220/sqft

¹⁴ Assuming 35dph; a 30dph variant archetype was also tested assuming 1200sqft at £200/sqft

¹⁵ Assuming 30dph, a 35dph variant archetype was also tested assuming 1025sqft at £205/sqft

3.3.3. 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)	<i>Houses:</i> £104per sq ft (i.e. BCIS Median +12%)
	Large Site (40+ dwellings)	<i>Houses:</i> £91 per sq ft (i.e. BCIS Lower Quartile +12%)
Professional Fees	6%	
Build Contingency	Brownfield Sites	5% on all in build costs
	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.

3.3.4. 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 DTZ’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	
Sales and Marketing	3% on private residential sales	
Land Purchaser Costs	5.8%	
Developer Return	20% of Gross Development Value of entire development, including affordable housing	

- Model assumes contractors prelims and insurance are accounted for within the residential build cost
- Model assumes affordable revenues are received in parallel with construction expenditure
- Marketing and sales fees are only applied to private residential sales
- Interest is calculated quarterly in arrears. It is assumed that profit is taken from the sites when the cash flow is positive

3.3.5. 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 between 2 ha – 35ha 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 in Section 3, 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 2015 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 28 development site archetypes, as a representative sample of sites likely to come forward in accordance with the Local Plan.

The 28 development site archetypes have been tested for delivery viability against the Draft 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 footpaths, 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).

4.1.1. Affordable Housing Scenarios Tested.

For each archetype – the following affordable housing scenarios were tested.

- District Wide Standard Rates: 0%; 20%, 25%, 30%, 60%
- Variable Rates by Settlement, as below.

Settlement	Variable Rates by Settlement			
	Variable 1	Variable 2	Variable 3	Threshold
Ashby de la Zouch	30%	25%	40%	15 or more
Castle Donington	30%	25%	30%	15 or more
Coalville Urban Area	20%	15%	20%	15 or more (Coalville); 11 or more or 1,000sqm (gross) floor space (lbstock)
Kegworth and Measham	30%	25%	30%	11 or more or 1,000sqm (gross) floor space
All other settlements	30%	25%	25%	11 or more or 1,000sqm (gross) floor space

4.1.2. Two Market Scenarios are Tested

- Based on the current market
- Assuming cumulative net price growth of 4% over the remaining Plan Period (based on net annual growth of 0.5% to the midpoint between 2014 (now) and 2031 (the end of the Plan Period))

Example Viability Table

Each site archetype is subject to testing against the affordable housing and market Scenarios as below, using the traffic light indicator system to display the results of the viability testing under each scenario. e.g.

Market Value Band	Settlement Status	Context	Settlement	Site Size (Gross) ha	dp	0 %	20%	25%	30%	40%	60%	
Primary	Key Service Centres (Castle Donington & Ashby)	Greenfield	Ashby	5	35							
				1	30							
			Castle Donington	5	35							
				1	30							
			Local Service Centre or smaller	Greenfield	Kegworth	5	35					
						1	30					
	Brownfield	5			35							
		1			30							
	Greenfield	Measham		5	35							
				1	30							
		Brownfield		5	35							
				1	30							
	Secondary	The Coalville Urban Area	Greenfield	Coalville Urban Area	5	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						

4.2. 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), they will be considered against the Affordable Housing Policy Scenarios that NWLDC are considering, as set out previously.

Market Value Band	Settlement Status	Context	Settlement(s)	Site Size (Gross) ha	Density (dwellings / ha)	CURRENT MARKET SCENARIO						
						Affordable Housing (% of total dwellings)						
						0%	20%	25%	30%	40%	60%	
Primary	Key Service Centres (Castle Donington & Ashby)	Greenfield	Ashby	5	35							Not tested
				30								
			1	35								
				30								
			Castle Donington	5	35							
				30								
	1	35										
		30										
	Local Service Centre or smaller	Greenfield	Kegworth	5	35							
					30							
				1	35							
					30							
		Brownfield	Kegworth	5	35							
					30							
				1	35							
					30							
		Greenfield	Measham	5	35							
					30							
				1	35							
					30							
Brownfield	Measham	5	35									
			30									
		1	35									
			30									
Secondary	The Coalville Urban Area	Greenfield	Coalville Urban Area	5	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							

4.2.1. District Wide Standard Rate of 60%

The modelling suggests this would not be viable anywhere across the District

4.2.2. District Wide Standard Rate of 30%

This modelling suggests that this rate would be appropriate across larger sites at the two Key Service Centres (Ashby and Castle Donington).

The results across the Local Service Centres are rather more mixed, with the larger greenfield sites in the local service centres, Kegworth and Measham, located in primary market areas, being viable at this rate, but with all the Centres in the Secondary market area of the District, including the Coalville Urban Area, not being viable at this rate. All the Brownfield site archetypes tested at the Local Service Centres remain unviable at this rate of affordable housing.

4.2.3. District Wide Standard Rate of 20%

This modelling suggests that this rate would be appropriate for greenfield development across the centres, with the exception of Ibstock (where, based on the land supply assessment, we have only modelled a small site).

Reflecting, however, the nature of sites likely to come forward over the Plan period, we have also modelled brownfield development in the Local Service Centres of Kegworth and Measham, and the Coalville Urban Area, and at these brownfield sites this rate is unlikely to be viable.

4.2.4. District Wide Standard Rate of Zero

All sites, with the exception of brownfield sites in the Coalville Urban Area are shown to be viable with nil on site affordable housing (the modelling allows for a £5,000 Section 106 contribution per dwelling). What sets the brownfield land archetypes in the Coalville Urban Area apart from the other archetypes, is the combination of relatively low residential sales values (reflecting Coalville's position in a secondary market area), which suppresses residual land values, with the generally high value of employment land in Coalville. This means the Coalville Urban Area brownfield archetypes have relatively low threshold land values in relation to the residential development values, meaning there is little, if any, room for planning contributions.

4.2.5. Summary Consideration of Potential District Wide Standard Rate

It is apparent that, based on the modelling results using current market assumptions, there is no one suitable District Wide Standard Rate. The highest rate potentially achievable in the Key Service Centres of Ashby and Castle Donington, 30%, is not achievable in the Coalville Urban Area.

4.2.6. Variable Rates by Settlement Scenario

The following Variable Rates have been tested in the current market scenario.

Variable Rates by Settlement				
Settlement	Variable 1	Variable 2	Variable 3	Threshold
Ashby de la Zouch	30%	25%	40%	15 or more
Castle Donington	30%	25%	30%	15 or more
Coalville Urban Area	20%	15%	20%	15 or more (Coalville); 11 or more or 1,000sqm (gross) floor space (lbstock)
Kegworth and Measham	30%	25%	30%	11 or more or 1,000sqm (gross) floor space
All other settlements	30%	25%	25%	11 or more or 1,000sqm (gross) floor space

Reflecting on the modelling results, the “best fit” Variable Rates by Settlement set (1, 2 or 3), would be Variable Rate Set 1, on the basis of the following:

- With the archetypes in Ashby de la Zouch, shown as viable, or marginal, at 30% (As proposed in Variable Rate Set 1), the rate would seem appropriate for this settlement.
- For the Key Service Centre of Castle Donington, and the Local Service Centres of Kegworth and Measham, the rate of 30% is shown to be viable on the larger site archetypes
- For the Coalville Urban Area, the rate of 20% is shown to be viable on the large greenfield site archetype
- Whilst Variable 2, proposing 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. Also, the proposed rate of 15% for the Coalville Urban Area, and 25% for Ashby de la Zouch suggest an under provision against the rates (20% and 30%) that the modelling suggests is viable at these centres.
- Variable Rate set 3, is shown to be the poorest fit, based on the current market scenario, with the largest number of archetypes shown to be either marginally viable, or unviable at the affordable housing rates proposed.

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 policy scenarios.

Market Value Band	Settlement Status	Context	Settlement(s)	Site Size (Gross) ha	Density (dwellings / ha)	Affordable Housing (% of total dwellings)							
						0%	20%	25%	30%	40%	60%		
Primary	Key Service Centres (Castle Donington & Ashby)	Greenfield	Ashby	5	35								
					30								
			Castle Donington	5	35								
					30								
				1	35								
					30								
	Local Service Centre or smaller	Greenfield	Kegworth	5	35								
						30							
				1	35								
					30								
				Brownfield	Kegworth	5	35						
								30					
		1	35										
			30										
		Greenfield	Measham			5	35						
								30					
				1	35								
					30								
5	35												
	30												
1	35												
	30												
Secondary	The Coalville Urban Area	Greenfield	Coalville Urban Area	5	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. District Wide Standard Rate of 60%

As with the current market scenario, the modelling suggests this would not be viable anywhere across the District.

4.3.2. District Wide Standard Rate of 30%

The modelling allowing for net sale value growth suggests that this rate may be appropriate across the two Key Service Centres (Ashby and Castle Donington); the smaller Castle Donington site archetypes are shown as having marginal viability at this rate of affordable housing requirement compared to the current market scenario, which suggested they would be unviable.

Results for the Local Service Centres, however, remain mixed. Whilst this rate may be appropriate in Measham and Kegworth (the large site archetypes are shown as viable, and the small site archetypes are shown as marginal), development with this rate of affordable remains unviable in Ibstock.

Notably, development at this rate of affordable housing remains unviable in the Coalville Urban area.

4.3.3. District Wide Standard Rate of 20%

As with the current market scenario, the modelling suggests that this rate would be appropriate for greenfield development across the centres, with the exception of Ibstock (where, based on the land supply assessment, we have only modelled a small site).

Reflecting, however, the nature of sites likely to come forward over the Plan period, we have also modelled brownfield development in the Local Service Centres of Kegworth and Measham, and the Coalville Urban Area. As with the current market scenario, development at brownfield sites in these centres remains generally unviable according to the archetype modelling, with the possible exception of Measham. The modelling for Measham suggests that in the growth scenario, 2 of the 4 brownfield site archetypes tested are shown as being marginally viable.

The differing results for Measham and Kegworth brownfield site archetypes, which are similar value areas with regard to residential sales, relates to the notably different alternative / existing use values modelled. Kegworth is a prime value area for employment land (circa £325,000 / acre), reflecting its proximity to the M1, whilst rates in Measham (£275,000 / acre) reflect its more secondary position

4.3.4. District Wide Standard Rate of Zero

As with the current market scenario, all sites, with the exception of brownfield sites in the Coalville Urban Area, are shown to be viable with nil on site affordable housing (the modelling allows for a £5,000 Section 106 contribution per dwelling). What sets the brownfield land archetypes in the Coalville Urban Area apart from the other archetypes, is the combination of relatively low residential sales values (reflecting the Coalville's position in a secondary market area), which suppresses residual land values, with the prime status of the Coalville Urban Area for employment uses. This means the Coalville Urban Area brownfield archetypes have relatively low threshold land values in relation to the residential development values, meaning there is little, if any, room for planning contributions.

4.3.5. Summary Consideration of Potential District Wide Standard Rate

As with the current market scenario modelling, it is apparent that there is no one suitable District Wide Standard Rate. Whilst 30% affordable housing is potentially achievable at the greenfield site archetypes of Ashby and Castle Donington, Measham and Kegworth, the modelling suggests that the rate would remain unviable in the Coalville Urban Area, Ibstock, and at all the brownfield site archetypes modelled.

4.3.6. Variable Rates by Settlement Scenario

The following Variable Rates have been tested in the market growth scenario.

Settlement	Variable Rates by Settlement			
	Variable 1	Variable 2	Variable 3	Threshold
Ashby de la Zouch	30%	25%	40%	15 or more
Castle Donington	30%	25%	30%	15 or more
Coalville Urban Area	20%	15%	20%	15 or more (Coalville); 11 or more or 1,000sqm (gross) floor space (Ibstock)
Kegworth and Measham	30%	25%	30%	11 or more or 1,000sqm (gross) floor space
All other settlements	30%	25%	25%	11 or more or 1,000sqm (gross) floor space

As with the current market modelling, the “best fit” Variable Rates by Settlement set (1, 2 or 3), would be Variable Rate Set 1, on the basis of the following:

- With all archetypes in Ashby de la Zouch, shown as viable at 30% (As proposed in Variable Rate Set 1), the rate would seem appropriate for this settlement.
- For the Key Service Centre of Castle Donington, and the Local Service Centres of Kegworth and Measham, the rate of 30% is shown to be viable, or marginally viable at all of greenfield archetypes modelled for each centre
- For the Coalville Urban Area, the rate of 20% is shown to be viable on the large greenfield site archetype modelled
- As suggested in the analysis of the current market scenario modelling, Variable 2, proposing a rate of 25% at Kegworth, Measham and Castle Donington, potentially risks an under provision against the rate that is potentially viable on the larger greenfield sites at these centres. Also, the proposed rate of 15% for the Coalville Urban Area, and 25% for Ashby de la Zouch suggest an under provision against the rates (20% and 30% plus) that the modelling suggests is viable at these centres.
- Variable 3 proposes a 40% affordable housing rate for Ashby. The results of the modelling, even allowing for market growth, show the two greenfield archetypes as being marginal at best.

4.4. Consideration in the Round

4.4.1. Generally

The modelling suggests that, of the affordable housing options proposed, Variable 1 is the best fit with the results of the viability modelling. i.e.

Settlement	% Affordable Housing
Ashby de la Zouch	30%
Castle Donington	30%
Coalville Urban Area	20%
Kegworth and Measham	30%
All other settlements	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 site archetypes in the current market environment, and on all 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 archetypes in the growth scenario.

Certain sites in Ashby may be able to exceed a 30% target quite comfortably (given the amber results for 40%), and, conversely, a certain proportion of sites in Castle Donington, Kegworth and Measham may not be able to achieve 30% (notwithstanding the effect of abnormals). It is not the role of this assessment, however, to consider additional affordable housing options to those considered by NWLDC, which have been shaped, we understand, by a number of other considerations material to policy making and the development management process.

4.4.2. Brownfield Land

This suggestion regarding “best fit” is made on the understanding that the majority of development across the District over the Plan period will be on Greenfield sites. Notwithstanding this, Brownfield sites will still have a notable complementary role in housing delivery over the Plan Period.

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 (possibly zero affordable housing contributions in some cases, and to a slightly lesser extent in Kegworth, due to high employment land values). The issue is less acute in Measham, as employment land values here are notably less than in Coalville and Kegworth.

Additional sense testing (assuming the current market environment) was undertaken assuming a 0.55 hectare brownfield site archetype, and whilst this archetype performed slightly better compared to the 1 hectare archetype, the performance improvement was not significant. For example the Coalville archetype was still shown as being unviable, even allowing for no Section 106 contributions.

Notwithstanding this, we understand 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 encouraging¹⁶.

4.4.3. “Other Settlements”

Caution should be applied with regard to setting a rate for “other settlements”, on the basis that this includes the Local Service Centre of Ibstock, which our modelling suggest may struggle to achieve 20% affordable housing. Also “other settlements” include for numerous settlements across the District which fall into different value areas.

4.4.4. Open Market Dwelling Mix

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 modelled¹⁷, 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.

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) than 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.

¹⁶ 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.

¹⁷ Our average sqft sizes assume a mix in the region of 20-25% 2 bedroom, 50% 3 bedroom, and 25-30% 4 bedroom plus

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 vehicular access from the A511 (the principal access route), Smisby Road (the secondary access point) and Nottingham Road (restricted to a maximum of 70 dwellings).
- (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;
- (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, open spaces, green infrastructure and community facilities and enhanced public transport provision.

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:

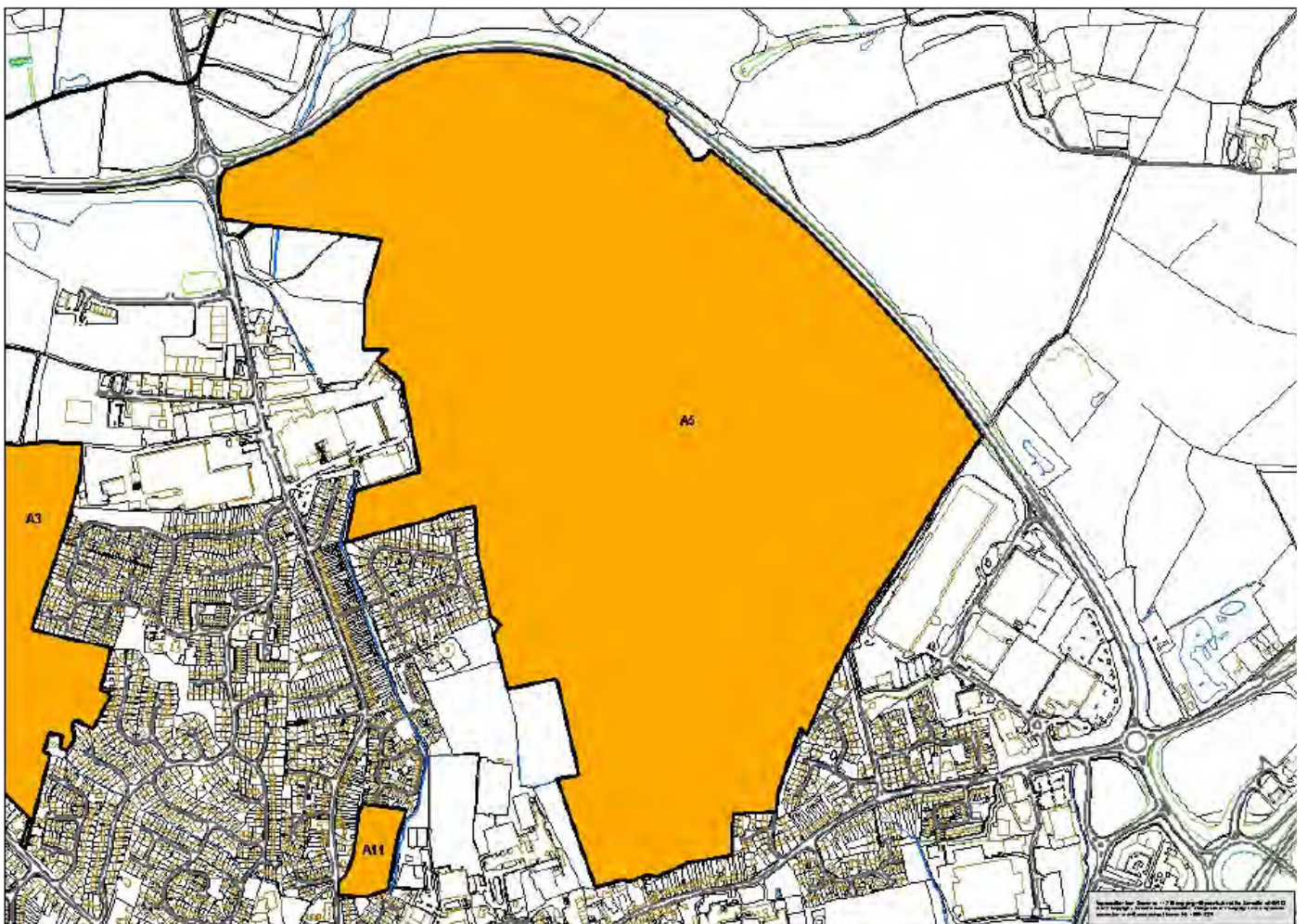
- Site A5: Land at Money Hill, the larger of the two sites covering, expected to accommodate around 1,600 dwellings
- Site A22: Arla Dairy, Smithsby Road, Ashby, expected to accommodate about 150 dwellings

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.

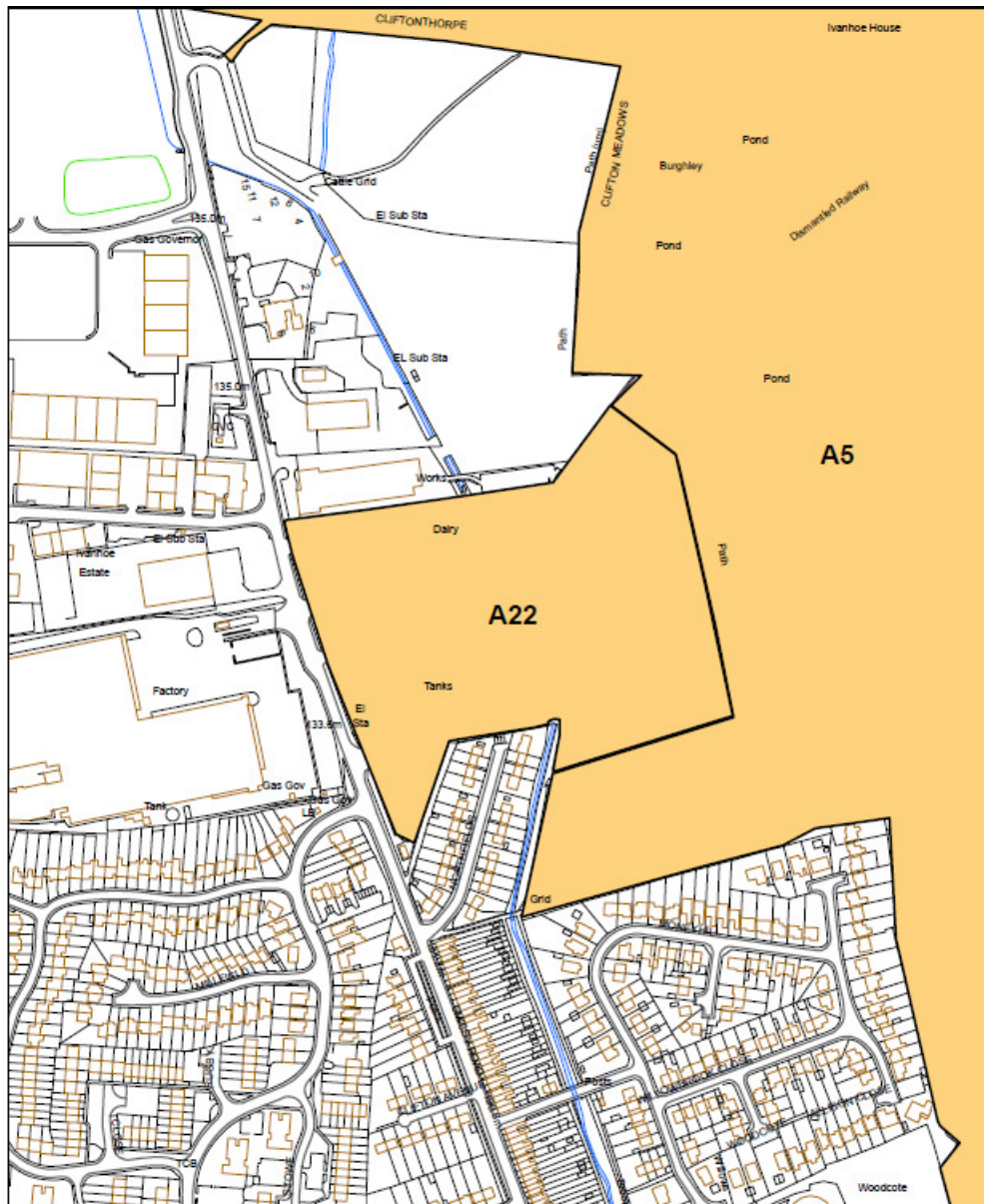
The site is under the control of the Money Hill Consortium, with the exception of a small area in the south east of the site, which is under the control of Miller Homes.

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



5.3. Arla Dairy, Smithsby Road (A22), 5.1 hectares

The site is located to the east of Smithsby 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 Smithsby 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 promoters, are presented below.

	Money Hill Site (Money Hill Consortium)¹⁸	
	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 draft local plan), across a net residential area in the region of 53.85 net residential (circa 32dph) hectares

¹⁸ 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 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.

Whilst the site promoters of the “Miller Homes land” within the wider Money Hill site, and the neighbouring Arla site have not advised on the development trajectory of these sites within the allocation, it is appropriate to consider the delivery of the entire H3a allocation, encompassing all three sites, 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) which suggests an average of around 2.5 development points 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 140 dwellings per year across the H3a allocation, and so a development period of around 14 years (allowing for a one year infrastructure lead in period). An indicative trajectory is presented below.

	Development Year													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Dwellings Completed / annum	0	70	140	140	140	140	165	165	165	140	140	140	140	65
Cumulative Completions	0	70	210	350	490	630	795	960	1125	1265	1405	1545	1685	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)

The promoters of the Arla site have confirmed the requirement for a 6.7 metre wide spine road running across their site, from its access on Smithsby Road to the eastern site boundary, and estimate this cost to be in the region of £420,000.

The promoters 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 £35,000,000, for the whole site allocation, based on a rate of £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 made¹⁹. 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. Marketing prices as of May 2015 were as follows.

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

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 an average net sales price of £225/sqft was agreed, assuming an average sized dwelling of 1055sqft, which the marketing prices above is consistent with, after allowances have been made for sales incentives.

¹⁹ 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

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 £275,000 / acre, suggesting a total land value for the employment land of £11.39 million, with a draw down 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 centre²⁰, 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.

²⁰ 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)	£85/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	£225/sqft	Based on an analysis of local comparables, above (Section 1.8).
Market Dwellings – assumed average size	1055 sqft	Based on a blend of dwelling sizes consistent 35dph 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	£103/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)	Between 70dw/annun 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 promoters 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.

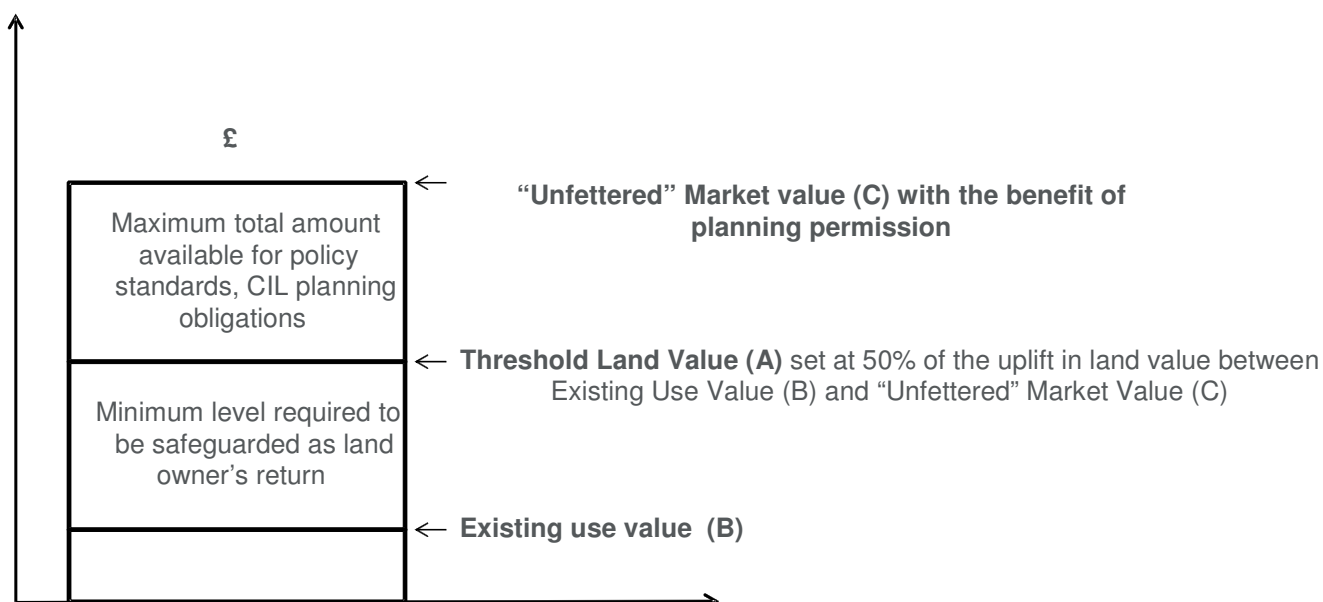
A critical consideration is the allowable size of the premium over the existing/alternative use value, and whilst the Harman Report made several pertinent observations relating to how a view on value might be taken with regard to agricultural land, it presented nothing in the way of an approach. Practical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



7.2.1. 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 £275,000 / acre. On this basis the existing use value of the site is calculated as £5.85 million, assuming the following:

○ The Arla Site:	12.6 acres	@ £275,000 / acre:	£3.465 million
○ The Money Hill Site:	317.4 acres	@ £7,500 / acre:	£2.381 million

7.2.2. 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 £107,000,000²¹. i.e.

- **Total Development Costs of £314 million** (including 20% Profit on Value of £314 million, build costs and professional fees, a 2.5% contingency allowance, finance costs, sales and marketing costs, and site specific development infrastructure of £35 million), **less,**
- Total Development Value of **£427 million**

7.2.3. Calculation of Threshold Land Value (A)

Threshold Land Value (A)	=	(Uplift between (B) and (C) * 50%)	+ Existing Use Value
	=	(£100.85m*50%)	+ £5.85 million
	=	£50.43 million	+ £5.85 million
	=	£56.28 million	

The suggested Threshold Land Value (A) is £56.28 million (circa £170,500 / gross acre). This is on the basis of adding £50 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 £5.85 million, to calculate the land value receipt at which the landowners may become “a willing seller”.

²¹ 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 mix modelled in Part 1 of this Draft Local Plan Viability Study.

The summary of the viability appraisals is presented below.

Scheme	25% Affordable Housing	30% Affordable Housing
Total Costs	£292m	£285m
Build (inc. Fees and Contingency)	£152m	£149m
Infrastructure and Section 106	£49m	£49m
Finance Costs	£12.7m	£12.2m
Marketing and Sales	£9.8m	£9.3m
Profit @ 20% on Value	£68.6m	£65.7m
Total Receipts	£354.8m	£340.4m
Residual Land Value (net)	£59.3m	£52.3m
SUE Area (acres)	330 acres	330 acres
Estimated Residual Land Value gross /acre	£179,000	£158,000

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 30% affordable housing, required Section 106 payments and infrastructure costs) equals or exceeds the threshold land value. If residual land value equals or exceeds threshold land value, then the development is viable, if the residual land value falls short of the threshold land value then the development is not viable.

On this basis, we have considered the viability of the strategic site – a sustainable urban extension of Ashby. The modelling suggests that the residual value of the scheme exceeds, by nearly £10,000 / acre, the threshold land value hurdle of £170,500 / acre at 25% affordable housing, whilst falling short of the target by a similar magnitude when modelled at 30% affordable housing

The reality is slightly more complicated than this concept, especially for developments of the scale of SUEs, in that a relatively small residual margin on either side of the threshold land value (in this case, around £3m to £4m either side) can be deemed insignificant in a development scheme approaching £0.3 billion in development costs. Relatively modest changes in cost allowances, sales rates and timings (especially infrastructure), Section 106 trigger points, affordable housing mix (tenure and type), can have a significant cumulative impact. It is reasonable to consider that the proposed strategic allocation on land north of Ashby (Policy H3a in the draft local plan for consultation) is viable in the context of other policies proposed in the draft local plan.

8. Policy H3b – 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, including for the following: -

²²Development will be subject to the following:

- (i) Provision of vehicular access from Ashby Road and Leicester Road;
- (ii) Provision of walking and cycling connections from the site to Measham town centre and existing bus routes; provision of a range of infrastructure including contributions towards education provision, open spaces, green infrastructure and community facilities and enhanced public transport provision.

The proposal is split over two SHLAA sites:

- Site M11: Land at Leicester Road / Grassy Lane, Measham - 12.01 hectares
- Site M12: Land off Ashby Road, Measham – 3.4 hectares

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

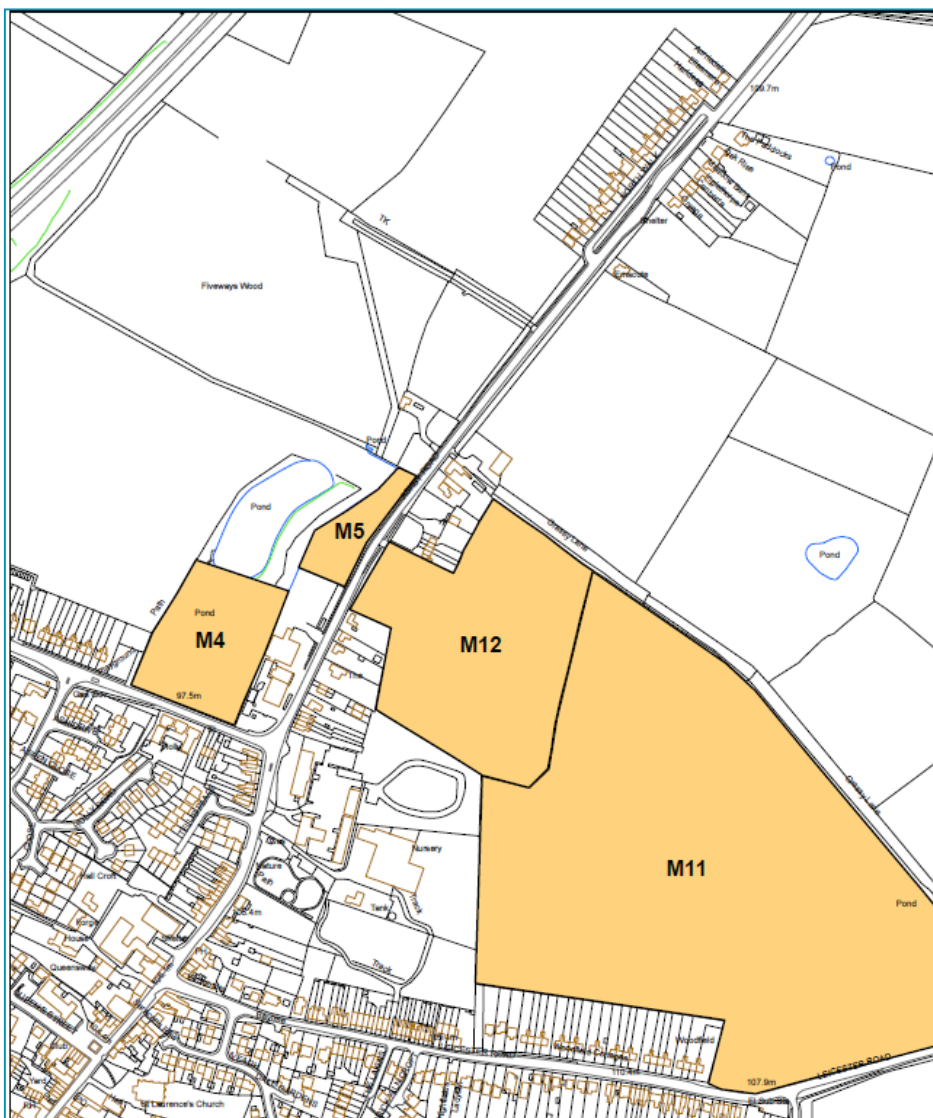
The site is located between Leicester Road and Grassy Lane, Measham. The site is Greenfield land, currently used for agricultural purposes. The site is located to the north east of the settlement, with existing housing located to the south of the site. To the west of the site is Rose Bank Nursery, to 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.

²² 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 H2m).

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 commence in 2016/17, averaging 100 dwellings per annum, allowing for two development outlets, and also including for affordable housing.

For a site of up to 350 dwellings we would presume two development points, each producing around 55 dwellings per annum (including affordable housing). This would suggest a development rate of around 110 dwellings per year across the H3b allocation, and so a development period of around 4 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 promoters do not envisage any significant on site infrastructure. On this basis, we have made provision for certain elements of on-site 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 made²³. 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
- Police

²³ 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

9.4. Development Values

9.4.1. Residential

A new build development being marketed in proximity to the site is Nursery Gardens, by David Wilson Homes. Marketing prices as of May 2015 were 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

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 price of £200/sqft was agreed.

This rate assumed an average sized dwelling of 1200sqft at a density of 30dph, which the marketing prices above is consistent with, after allowances have been made for sales incentives, and adjusting the £/sqft rate to account for the different size of houses.

On the basis of the 32dph proposed at the subject site, we have presumed a smaller average size of 1,100sqft, and adjusted the £/sqft to £202.

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).

D. Item	E. Assumption	F. Commentary
House Build Costs (including estate roads and normal utility services)	£91/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	£202/sqft	Based on an analysis of local comparables, above (Section 1.8).
Market Dwellings – assumed average size	1100 sqft	Based on a blend of dwelling sizes consistent 35dph 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 120dw/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 a 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:

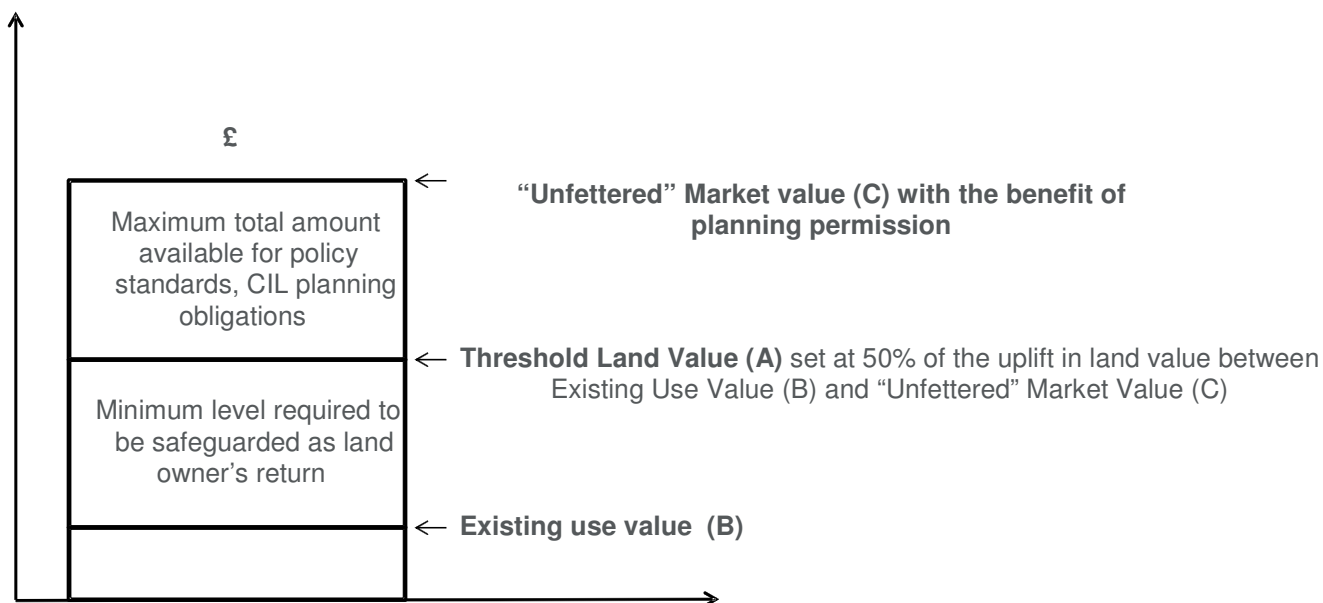
“To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns 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 £16,000,000²⁴ i.e.

- **Total Development Costs of £61 million** (including 20% Profit on Value of £314 million, 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), **less,**
- **Total Development Value of £78 million**

²⁴ After Stamp Duty Land Tax, land acquisition agent and legal fees; figures subject to rounding

10.2.3 Calculation of Threshold Land Value (A)

Threshold Land Value (A)	=	(Uplift between (B) and (C) * 50%)	+ Existing Use Value
	=	(£15.6m*50%)	+ £279,750
	=	£7.8 million	+ £279,750
	=	£8.1 million	

The suggested Threshold Land Value (A), for the purposes of this study, is £8.1 million (circa £217,000 / gross acre²⁵). This is on the basis of adding £7.8 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”.

²⁵ 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 H3b, 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 mix modelled in Part 1 of this Draft Local Plan Viability Study.

The summary of the viability appraisals is presented below.

Scheme	25% Affordable Housing	30% Affordable Housing
Total Costs	£55.6m	£54.1m
Build (inc. Fees and Contingency)	£34.9m	£33.9m
Infrastructure and Section 106	£5.1m	£5m
Finance Costs	£1.4m	£1.3m
Marketing and Sales	£1.7m	£1.6m
Profit @ 20% on Value	£12.8m	£12.3m
Total Receipts	£63.9m	£61.3m
Residual Land Value (net)	£7.9m	£6.8m
Gross Area (acres)	37.3	37.3
Estimated Residual Land Value gross /acre	£213,000	£183,000

The modelling suggests that the residual value of the scheme falls short, by around £4,000 / acre, the threshold land value hurdle of £217,000 / acre at 25% affordable housing, whilst falling short of the target by around £34,000 / acre when modelled at 30% affordable housing.

10.4. Interpreting Viability

Ostensibly, the viability consideration is simply a case of checking that the residual land value of the SUE development (allowing for 30% affordable housing, required Section 106 payments and infrastructure costs) equals or exceeds the threshold land value. If residual land value equals or exceeds threshold land value, then the development is viable, if the residual land value falls short of the threshold land value then the development is not viable.

The margin of shortfall, is, however, relatively small, particularly with regard to the modelling at 25% affordable housing, which is just £4,000 / acre short of the target landowner return.

To illustrate this point, the appraisal has been sensitivity tested using “blended”²⁶ profit targets, which take in to account the reduced development risk associated with the varying rates of affordable housing.

²⁶ 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

Scheme	25% Affordable Housing	30% Affordable Housing
Sensitivity Testing – Assuming Threshold Land Value Hurdle of £217,000 / acre		
Blended” Profit target	18.7%	18.4%
Performance of scheme (Profit), assuming target land owner return of £217,000 / acre achieved	19.6%	17.3%

The sensitivity testing shows that for a scheme with 25% affordable housing, the profit target is exceeded.

Whilst the profit target is not met under the 30% affordable housing scenario, it would not be appropriate to suggest that this target is unobtainable during the Local Plan period, particularly on the basis that the modelling is based on a high level allowance for site specific abnormal costs, which may be overstated. Indeed, on a scheme of this large size, relatively modest changes in cost allowances, sales rates and timings, Section 106 trigger points, affordable housing mix (tenure and type), can have a significant cumulative impact. It is reasonable to consider that the proposed strategic allocation for land off Ashby Road / Leicester Road, Measham (Policy H3b in the draft local plan for consultation) is viable in the context of other policies proposed in the draft local plan.

Appendix 1: Stakeholder Responses Received

RESPONDENT NO. 1.

Respondent No. 1.	Stakeholders Comments	DTZ Comments	Action
<p>3. Allowances made for Local Plan Policies identified as having a direct bearing on viability.</p>			
<p>Do you agree with this approach? If not then please state why below and the costs that the modelling should take into account.</p>			
<p>The allowance of £4,000 per dwelling seems extremely light, particularly if the allowance is to include for all infrastructure requirements.</p> <p>It also wrong to assume that SUDs will not be required on sites of less than 150 dwellings and an additional allowance should be made for extra build costs related to higher design specification against Policy S5.</p>	<p><u>S106</u> The average figure is based on NWLDC analysis of median payments (which suggests just under £4,000 / dw), though DTZ see fit to add a 25% contingency (See also response to Policy S5, below), bringing the modelled allowance up to £5,000 /dw.</p> <p>If site specific infrastructure, over and above the allowance made for external works in the build costs, is required, this would be considered as an abnormal cost</p> <p><u>Policy S5</u> Design principles assumed to be readily achievable by way of appropriate dialogue through the development management process.</p> <p>In some cases, there may be an impact upon development density, but this can only be identified on a site by site basis.</p> <p>Building for Life 12 states that “<i>it may be possible to adapt elevations of standard house types to complement local character</i>”. Whilst there is the potential for an element of extra over cost in relation to enhancements to the elevations of standard house types, we would estimate this to be under £1,000 / dwelling in relation to facings, and in this respect allowance has been made for this potential cost in the modelling through the rounding up of the potential S106 contribution to £5,000 (NWLDC evidence suggests a median average payment of just under £4,000 / dwelling). We would consider additional treatments as an abnormal cost,</p>	<p>Allowance increased to £5,000 /dw</p>	

Respondent No. 1.	Stakeholders Comments	DTZ Comments	Action
4. Selection of Site Archetypes			
Do the following hypothetical schemes adequately cover the range of market areas, sites and <u>development densities</u> to which the development is likely to come forward over the Plan period?			
No – The site densities for greenfield sites should be reduced to 30dph for all locations. On a related note we object to the indicating housing mix set out at Policy H6 which we consider severely underestimates the demand for 4-bed properties (see further response to Section 7) and needs to take account of future additions of bungalows to the mix on sites of 50 plus. 35dph is generally applicable for brownfield land although it is not clear why a figure of 30dph has been assumed on brownfield land in Kegworth and not in Measham.	Noted – 30dph archetype introduced for all value areas except for the Coalville and Ibstock, where values would not support the higher average dwelling sizes consistent with 30dph	- 30dph archetype introduced for all archetypes except Coalville and Ibstock	
5. Site Gross Area to Net Developable Area Ratios			
Do you feel any other approach should be considered?			
We support this approach.			

Respondent No. 1.	Stakeholders Comments	DTZ Comments	Action
6. General Development Assumptions			
Please detail where you agree and disagree with the assumptions proposed and whether any other consideration should be taken.			
We disagree with the use of lower quartile BCIS for large sites. Professional fees should be 8%. Build contingency should be 5% for greenfield sites and higher still for brownfield. Some allowance should be made for abnormals as there simply is not site without abnormals. The Development Rate should be adjusted downwards for secondary market areas (2 per month for small sites and 3 per month for large sites). The Developer Return should be increased to 22.5% (comprising 17.5% profit and 5% overhead).	<p><u>General Development Assumptions</u> These rates are consistent with DTZ market knowledge, and achieved gross development values for comparable sites</p> <p><u>Abnormal Costs</u> Draft Local Plan policy makes provision for adjusting affordable housing contributions to react to site specific abnormal costs</p>	No change	
7. Unit Size			
For affordable dwellings we have assumed an average size of 775 sq ft. Please could you provide your views on the above, if your view differs:			
-			
Is this proposed mix consistent with your views on unit size? If not please advise how you think this might affect the delivery of development.			
Demand for 4-bed units will be much higher than this mix allows for which will constrain delivery. The mix should support at least 30% 4-bed with the percentage of 2 and 3 –bed reduced accordingly.	Noted	Commentary in the Report will take this into consideration	
8. Revenues			
We have assumed a range of unit values throughout this assessment, based on the distribution of the potential sites.			
Please express values as £ per square foot, and please provide supporting evidence.			
<i>Measham Local Service Centre (and smaller rural centres):</i>			
Assumed Av Size:	1200 sq ft 200	Noted	Assumptions for Measham 30dph archetype adjusted accordingly

Respondent No. 1.	Stakeholders Comments	DTZ Comments	Action
9. Affordable Housing			
<p>Based on the proposed size profile proposed by H6, we have assumed an average size for the purposes of the modelling of around 775 sq ft.</p> <p>Do you agree with this approach?</p>			
-			
If you disagree, please provide or reference evidence to support this view.			
The value assumed for intermediate housing is too high and the tenure split to be tested should include some affordable rent.	Noted	<p>Value for intermediate housing reduced to 60% of open market value</p> <p>Have assumed a 50/50 blend of affordable and social rented housing, within overall “rented” social housing tenure</p>	
10. Land Values			
Do you agree with this method?			
Yes			
If available, please provide any comparable evidence or your views on what you assume to be sufficient to bring land forward for development in the District?			
-			
11. Development Scenarios			
Do you agree with this approach and/or rate?			
Yes – but if included a further sensitivity should be considered for cost increases.	The modelled rate of growth is a net rate which allows for construction cost growth	No change	
If not, please suggest an alternative approach, highlighting differentiations between market areas if you think this is important.			
-			

Respondent No. 1.	Stakeholders Comments	DTZ Comments	Action
13. Additional Comments			
	Further consideration should be made for variation by size of builder. The assessment should not just reflect viability for major PLC's.	This has been taken into consideration with regard to build costs. The build costs for smaller site archetypes takes into account smaller housebuilders, who will be fully exposed to the recent substantial cost increases. The larger housebuilders, who tend to be more attracted to the larger sites, benefit from operational economies of scale.	

RESPONDENT NO. 2.

Respondent No. 2	Stakeholders Comments	DTZ Comments	Action
6. General Development Assumptions			
Please detail where you agree and disagree with the assumptions proposed and whether any other consideration should be taken.			
Does this apply to 100% Affordable schemes? We will not be making the same profit, and we will probably be handing over at a much higher rate.	We have not made any special assumptions relating directly to the type of developer, Our assumptions are specific to the site archetype (which may have a bearing on the type of developers attracted to the site		
7. Unit Size			
For affordable dwellings we have assumed an average size of 775 sq ft. Please could you provide your views on the above, if your view differs:			
-			
Is this proposed mix consistent with your views on unit size? If not please advise how you think this might affect the delivery of development.			
Affordable Housing Providers will usually be providing larger dwellings: at the following minimums: 1 bed @ 45 sq m: 2 bed @ 68 sq m: 3 bed @ 82 sq m.	Noted. We have cross referenced this with the comment given in relation to Section 9 regarding affordable housing mix to recalculate our assumption on the average size of affordable housing	Average affordable housing size assumption adjusted to 700sqft	
9. Affordable Housing			
Based on the proposed size profile proposed by H6, we have assumed an average size for the purposes of the modelling of around 775 sq ft.			
Do you agree with this approach?			
-			
If you disagree, please provide or reference evidence to support this view.			
For affordable housing schemes we are likely to have fewer larger properties	Noted. We have cross referenced this with the comment given in	Average affordable housing size assumption adjusted to 700sqft	

Respondent No. 2	Stakeholders Comments	DTZ Comments	Action
	<p>which would bring down the average size.</p>	<p>relation to Section 7 regarding affordable housing mix to recalculate our assumption on the average size of affordable housing</p>	
<p>13. Additional Comments</p>			
	<p>I am concerned that these contributions will be assumed for ALL schemes and we are already having difficulties in this area and having to go to the additional cost of a District Valuer viability assessment to prove that we cannot afford contributions. I believe that some of the extras required by NW Leics for materials – particularly unusual sized windows/brick walls/high quality etc – although great in intention do not, for rented or shared ownership property result in higher income.</p>	<p><u>Policy S5</u></p> <p>Design principles assumed to be readily achievable by way of appropriate dialogue through the development management process.</p> <p>In some cases, there may be an impact upon development density, but this can only be identified on a site by site basis.</p> <p>Building for Life 12 states that “<i>it may be possible to adapt elevations of standard house types to complement local character</i>”. Whilst there is the potential for an element of extra over cost in relation to enhancements to the elevations of standard house types, we would estimate this to be under £1,000 / dwelling in relation to facings, and in this respect allowance has been made for this potential cost in the modelling through the rounding up of the potential S106 contribution to £5,000 (NWLDC evidence suggests a median average payment of just under £4,000 / dwelling). We would consider additional treatments as an abnormal cost,</p>	<p>No change</p>



Draft Local Plan for Consultation Viability Review – Part 3: Viability Modelling of Notional Free Standing Site of 2,000 dwellings

NORTH WEST LEICESTERSHIRE DISTRICT
COUNCIL

24 July 2015

DTZ
No 1 Colmore Square
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B4 6AJ

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Executive Summary

North West Leicestershire is preparing a draft Local Plan for consultation.

North West Leicestershire District Council appointed DTZ to carry out a whole plan viability study to look at the potential impact of all the policies in the Draft Local Plan upon the viability of new development, and in particular test a number of affordable housing options in the context of such a review.

The study is an assessment of the viability of the cumulative impact of the Draft Local Plan's policies on viability, 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 four parts: -

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. Whilst it is the case that most new housing is already committed, or is proposed to be delivered through a proposed strategic allocation in Ashby (or at a reserve site in Measham) there may be additional sites which come forward during the plan period
2. Site specific viability reviews of strategic allocations at Ashby and Measham (reserve)
3. A consideration of the potential of a standalone settlement of some 2,000 dwellings
4. A viability review of three consented strategic schemes

This report comprises Part 3 of the Study, considering the potential of a standalone settlement of some 2,000 dwellings, allowing for a small local centre and a primary school. Parts 1 & 2, and 4 are considered in separately issued reports.

The modelled settlement is not specific to any location within the District, though the viability of the settlement has been tested assuming a location within several different, notional, market areas – high (£225/sqft), low (£175/sqft) and mid value (£200/sqft).

Market and general development assumptions were made by DTZ, whilst site specific infrastructure costs were provided to DTZ by Gardiner and Theobald, a national firm of cost consultants with specialist experience in providing infrastructure costings for large strategic development sites, and with whom DTZ have worked with before on such sites across the Midlands.

A series of appraisals were produced, and the results suggest that a notional new settlement of 2,000 dwellings, may be capable of supporting in the range of 12.5% and 30% affordable housing, depending on the value area of the District in which it may be located.

The development appraisals are based on an archetypal new settlement, and do not relate to any specific location within the District of North West Leicestershire. Site specific circumstances will have a bearing on infrastructure costs, and potential abnormal development costs. The efficiency at which the site can be developed (on a gross to net basis) will also vary by location. These limitations to the study should be borne in mind alongside the high level nature of the cost and value estimations.

What the appraisals do suggest is that it may only be in the highest value areas of the District, where a new settlement providing 30% affordable housing may be realisable. We would caution, however, that the high level appraisal modelling has not considered any off site highways constraints that certain parts of the District may face, and which may present additional abnormal development costs to any proposed free standing settlement, thus affecting the ability to fund affordable housing.

Introduction

North West Leicestershire is preparing a draft Local Plan for consultation.

North West Leicestershire District Council appointed DTZ to carry out a whole plan viability study to look at the potential impact of all the policies in the Draft Local Plan upon the viability of new development, and in particular test a number of affordable housing options in the context of such a review.

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The study has four parts: -

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. Whilst it is the case that most new housing is already committed, or is proposed to be delivered through a proposed strategic allocation in Ashby (or at a reserve site in Measham) there may be additional sites which come forward during the plan period
2. Site specific viability reviews of proposed strategic allocations at Ashby and Measham
3. A consideration of the potential of a standalone settlement of some 2,000 dwellings
4. A viability review of three consented strategic schemes

A questionnaire relating specifically to the archetypal sites within the District was circulated to the development stakeholders in the District to inform Part 1 of the study, whilst contact was made with the site promoters of the strategic sites (Part 2) in order to ensure the study was able to benefit from a consideration the most up to date and detailed, site specific information.

PART 3: Viability modelling of notional free standing new settlement of 2,000 dwellings

1. The Scheme

1.1. Context

As part of the preparation of the draft local plan for consultation, North West Leicestershire District Council asked DTZ to consider the viability and deliverability of a notional, free standing settlement of 2,000 dwellings.

The modelled settlement is not specific to any location with the District, though the viability of the settlement has been tested assuming a location within several different, notional, market areas – high (£225/sqft), low (£175/sqft) and mid value (£200/sqft).

1.2. Assumptions regarding the free standing settlement of 2,000 dwellings

The base assumption made is that the development will have a residential density of around 35 dwellings per hectare, which would reflect a scheme of mainly two storey family housing.

From this base assumption, a total gross area for the new settlement has then been estimated, on the basis of the net residential development area of the new settlement being some 58% of the gross area of the new settlement, with an allowance also made for a 480 place primary school, and a small local centre. The remaining 60% of the new settlement is set aside for green, utilities, and transport infrastructure, which is typical for a scheme of this size.

An indicative land use budget is set out below.

Land Use	Area (ha)	% of Gross Development Area
Residential	57	58%
Local Centre	1	1%
New Primary School	2.8	3%
Infrastructure and Open Space	37.2	38%
Total	98	100%

1.3. Viability Assessment Approach

The method used to assess the viability of these four schemes is consistent with that used in the previous sections (Part 1 – Site archetype modelling, and Part 2 – Strategic Sites, but the modelling process has been inverted.

The residual land value approach, used in Parts 1 and 2

The 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.**”

- If there is a residual land value that is higher than the benchmark threshold land value (for “a willing landowner”), then the development can be deemed viable; if it is below then the development will not be considered viable by the market.

Instead of assuming a fixed developer profit (sufficient for a willing developer), and then testing the residual land value against a threshold land value (sufficient for a willing landowner), the land owners return is fixed (at the calculated threshold land value for a “willing landowner”) for the purpose of this appraisal.

We have assumed that for the notion of promoting a free standing settlement to be worthwhile in policy terms, the local planning authority must be confident that it will deliver a reasonable amount of community benefits by the way of planning obligations. On this basis:

- the modelling assumes a fixed level of S106 contributions, at a rate of £8,000 / dwelling, which is within the order of magnitude of S106 contributions secured at a number of the recently consented strategic sites within the District.
- various levels of affordable housing are then tested for each value area modelled (high, medium and low, see Section 1.1, above), with the result of each appraisal being a calculated profit figure, with the test the scheme is subject to, allowing for the financial impact of the assumed Section 106 requirement, and assuming a minimum return for the landowner, is will it generate a sufficient profit for prospective, willing developer?

2. 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.

2.1. Model Targets – What defines Viability?

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.

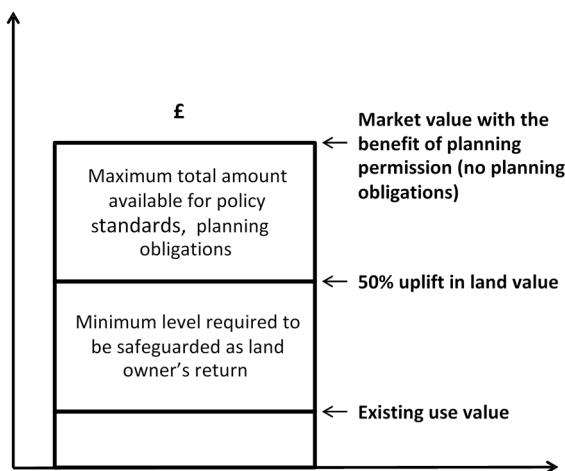
For each site appraised, the model calculates a residual land value (including an allowance for a competitive profit return prerequisite for a willing developer) to determine whether it is above “threshold” land values deemed sufficient to “provide competitive returns to a willing land owner to enable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

As with the previous Parts of this study, the landowner return for each site has been calculated using the “50% uplift” approach. i.e.



$$\text{Benchmark site value} = (\text{Market Value}^* / 2) + \text{Existing Use Value}$$

*market value is the residual land value of the archetype assuming planning permission for the proposed development, excluding the costs of any planning obligations.

2.2. Model Inputs

We have set these out in two parts.

- The first part is a schedule of infrastructure costs prepared by cost consultants Gardiner & Theobald, typical to a free standing scheme of this size. The elemental schedule is based on an analysis of benchmark costs from Gardiner & Theobald's extensive experience advising on strategic sites across the Midlands and the United Kingdom.
- The second part is a schedule of general development assumptions, prepared by DTZ based on their residential development market experience in the Midlands.

2.2.1. Infrastructure Costs

North West Leicester

Notional Settlement - REV A



		Nr of Units					
ITEM	DESCRIPTION	QUANTITY	UNIT	RATE	TOTAL	SUB-TOTAL	CUMULATIVE
1 Archaeology & Ecology							
	Archaeology	2000	Nr		103.30	206,598	
	Ecology	2000	Nr		92.78	185,559	
	Sub-Total						392,157
2 Earthworks							
	To Facilitate Drainage	2000	Nr		38.88	77,761	
	Topsoil Strip	2000	Nr		301.67	603,346	
	Abnormal Foundations (piled)	2000	Nr		335.65	671,290	
	General Site Clearance	2000	Nr		38.89	77,778	
	Temporary Haul Road	2000	Nr		14.81	29,630	
	Sub-Total						1,459,805
3 On-Site Highways							
	Spine Road	2000	Nr		1,930.12	3,860,247	
	Road Additions - Signage, Streetlights, Ducts	2000	Nr		682.35	1,364,706	
	Sub-Total						5,224,953
4 Off-Site Highways							
	Various Off-Site Highways	2000	Nr		773.91	1,547,818	
	Sub-Total						1,547,818
5 Surface Water Attenuation							
	Attenuation Pond	2000	Nr		1,522.99	3,045,975	
	Swale	2000	Nr		110.50	221,001	
	Sub-Total						3,266,976
6 Foul Water Drainage							
	Foul Water Drainage	2000	Nr		673.65	1,347,306	
	Sub-Total						1,347,306
7 Green Infrastructure							
	Soft Landscaping	2000	Nr		281.69	563,371	
	Hard Landscaping	2000	Nr		386.63	773,255	
	Sub-Total						1,336,627
8 Services							
	Foul Water Diversions	2000	Nr		140.00	280,000	
	Potable Water Supply	2000	Nr		986.15	1,972,291	
	Electric Supply	2000	Nr		834.73	1,669,456	
	Electric Diversions	2000	Nr		1,047.48	2,094,960	
	Gas Supply	2000	Nr		235.61	471,223	
	Telecommunications	2000	Nr		101.85	203,704	
	Sub-Total						6,691,633
9 Site Preliminaries							
	All in Rate for Preliminaries	2000	Nr		187.20	374,400	
	Sub-Total						374,400
10 Finance / Legals							
	Legal Costs - S38, S104		5 %		5,224,952.69	261,248	
	Legal Costs - S278		5 %		1,547,817.94	77,391	
	Legal Costs - Consultant Appointments	2000	Nr		20.00	40,000	
	Part 1 Land Compensation Claims	2000	Nr		40.00	80,000	
	Sub-Total						458,639
11 Public Relations							
	Public Relation Costs - Publicity, Signage, Website	2000	Nr		20.00	40,000	
	Sub-Total						40,000
12 Site Investigations							
	Topographical Survey	2000	Nr		20.00	40,000	
	Geotechnical Survey	2000	Nr		14.00	28,000	
	Archaeology	2000	Nr		0.00	0	
	Noise Surveys	2000	Nr		8.00	16,000	
	Arboricultural / Hedgerow Surveys	2000	Nr		20.00	40,000	
	Environmental Monitoring	2000	Nr		8.00	16,000	
	Sub-Total						140,000
13 Local Authority Fees							
	Planning Officer	2000	Nr		11.76	23,529	
	Sub-Total						23,529
Total of Notional Settlement							22,303,842

2.2.2. General Development Assumptions

A. Item	B. Assumption	C. Commentary
House Build Costs (including estate roads and normal utility services)	£85/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.
Market Dwellings – assumed average size	1055 sqft	Based on a blend of dwelling sizes consistent 35dph density in a development of this size.
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		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)		Between 70dw/annum and 165dw/annum, suggesting an overall construction period of around fourteen years, after a one year infrastructure phase lead in

3. Viability Testing

3.1. Introduction

Appraisal summaries of the three tested market scenarios (High, Mid and Low value) are presented below, including headline assumptions, and deliverable Section 106 and affordable housing quantum's.

For each market value scenario:

- a threshold land value (land owners return) was fixed (Refer to Section 2.1),
- a number of appraisal iterations were then undertaken, adjusting the affordable housing contributions by 2.5% each time,
- the appraisal iterations continued to the point where the scheme was shown to produce a profit on value of at least 20% on value, deemed sufficient for a willing developer (Refer to Section 2.1)

Market Area	High Value - £225/sqft	Mid Value £200/sqft	Low Value £175/sqft
Threshold Land Value (£/acre¹)	£270,000 / acre	£197,000 / acre	£124,000 / acre
% Affordable Housing	30%	22.5%	12.5%
S106 / dwelling	£8,000 / dwelling		
Appraisal Summary			
Land Acquisition ² (@ Threshold Land Value)	£69.4m	£50.6m	£31.8m
Build (including Fees and Contingency)	£170.3m	£171.3m	£182.4m
Infrastructure and Section 106	£38.3m	£38.3m	£38.3m
Finance Costs	£9.1m	£7.9m	£6.98m
Marketing and Sales	£10.6m	£10.2m	£9.8m
Total Costs	£298m	£283m	£269m
Total Receipts	£376m	£356m	£337m
Profit on Gross Development Value (%)	21%	21%	20%

3.2. Interpreting Viability

The appraisals suggest that a notional new settlement of 2,000 dwellings, may be capable of supporting in the range of 12.5% and 30% affordable housing, depending on the value area of the District in which it may be located.

The development appraisals are based on an archetypal new settlement, and do not relate to any specific location within the District of North West Leicestershire. Site specific circumstances will have a bearing on infrastructure costs, and potential abnormal development costs. The efficiency at which the site can be developed (on a gross to net basis) will also vary by location. These limitations to the study should be borne in mind alongside the high level nature of the cost and value estimations.

¹ Expressed per gross acre, on the basis that all sites are presumed to be greenfield sites, currently in agricultural use

² Including acquisition costs at 5.8%

What the appraisals do suggest is that it may only be in the highest value areas of the District, where a new settlement providing 30% affordable housing may be realisable. We would caution, however, that the high level appraisal modelling has not considered any off site highways constraints that certain parts of the District may face, and which may present additional abnormal development costs to any proposed free standing settlement, thus affecting the ability to fund affordable housing.



Draft Local Plan for Consultation Viability Review – Part 4: Review of Consented Strategic Sites

NORTH WEST LEICESTERSHIRE DISTRICT
COUNCIL

24 July 2015

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Executive Summary

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The study is an assessment of the viability of the cumulative impact of the Draft Local Plan's policies on viability, 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 four parts: -

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. Whilst it is the case that most new housing is already committed, or is proposed to be delivered through a proposed strategic allocation in Ashby (or at a reserve site in Measham) there may be additional sites which come forward during the plan period
2. Site specific viability reviews of strategic allocations at Ashby and Measham (reserve)
3. A consideration of the potential of a standalone settlement of some 2,000 dwellings
4. A viability review of three consented strategic schemes

This report comprises Part 4 of the Study, considering the potential of three consented strategic schemes. Parts 1 & 2, and 3 are considered in separately issued reports.

North West Leicestershire District Council has chosen four key schemes for DTZ to review, from a schedule of developments that either have planning permission (Identified in Policy H1 of the Draft Local Plan), or for which it has resolved to grant planning permission, and which are identified in the proposed Policy H2 of the Draft Local Plan. The schemes are:

H1d	Holywell Spring Farm, Burton Road Ashby de laZouch	400 dwellings
H1e	South of Park Lane, Castle Donington	895 dwellings
H1k	Land north of Grange Road , Hugglescote	800 dwellings
H2d	Standard Hill/West of Highfield Street, Coalville	400 dwellings

These particular schemes have been chosen on the basis of their significant size, which makes them important to the delivery of the Local Plan.

The method used to assess the viability of these four schemes is consistent with that used in the previous sections (Part 1 – Site archetype modelling, Part 2 – Strategic Sites, and Part 3 – Notional New Settlement), but the modelling process has been inverted. Instead of assuming a fixed developer profit (sufficient for a willing developer), and then testing the residual land value against a threshold land value (sufficient for a willing landowner), the land owners return is fixed (at the calculated threshold land value) in these appraisals.

The test each consented scheme is subject to, allowing for the financial impact of the obligations in the signed Section 106 agreement, and assuming a minimum return for the landowner, is will it generate a sufficient profit for prospective, willing developers?

Holywell Farm, Ashby, and South of Park Lane, Castle Donington (H1d)

The viability testing suggests that the strategic sites at Holywell Farm, Ashby, and South of Park Lane, Castle Donington remain viable propositions (both suggesting that developer return of at least 20% on value should be achieved), and following the recent signing of the Section 106 agreements, further progress towards a start on site for these schemes is to be expected.

Standard Hill, Coalville (H2b)

This site performs less well than the Ashby and Castle Donington sites, with a profit of 19% on value projected, just short of the 20% target, and hence might be considered a marginal scheme. Notwithstanding this it is reasonable to suggest that the scheme will progress in the medium term, especially on the basis that the viability modelling has taken into account the recent significant build cost inflation (nearly 10%) that we have applied to the infrastructure costs, which have a base date of Quarter 4, 2013.¹ Over the course of the next five or so years (the build out period of the site), the “net”² inflationary effect may be tempered somewhat.

Grange Road, Coalville (H1n)

The viability modelling suggests that the site may not be deliverable on the basis of the current requirements of the Section 106 agreement, with a profit of 15% on value projected by our modelling. Adjusting the affordable housing (and assuming the same tenure mix, which includes social rented housing), however, to 15%, for example, results in a projected return of 18% profit on value, which suggests a marginally viable scheme with such an affordable housing contribution.

Notably, our modelling of the infrastructure costs (with the exception of the off-site highways contribution forming part of the Section 106 agreement), is only based on a high level assumption (the applicants did not submit a viability appraisal in 2012 on the basis that it was making a full 20% affordable housing contribution, consistent with the affordable housing policy requirement for the area, at the time), and this needs to be borne in mind when considering the results of this high level appraisal.

Also worth considering, given the large size of the scheme, is that relatively modest changes in cost allowances, sales rates and timings (especially infrastructure), Section 106 trigger points, affordable housing mix (tenure mix, for example a higher proportion of affordable rent over social rent), can have a significant cumulative impact on viability. On this basis, it is not unreasonable to conclude that the scheme would be deliverable with affordable housing of around 15% (with all other Section 106 contributions fixed as was, save for a possible adjustment in the tenure mix, and timing of contributions), subject to a full and detailed review of viability.

¹ We presume, based on the timing of the submission of the viability appraisal

² Taking into account sales inflation over the time period

Introduction

North West Leicestershire is preparing a draft Local Plan for consultation.

North West Leicestershire District Council appointed DTZ to carry out a whole plan viability study to look at the potential impact of all the policies in the Draft Local Plan upon the viability of new development, and in particular test a number of affordable housing options in the context of such a review.

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A questionnaire relating specifically to the archetypal sites within the District was circulated to the development stakeholders in the District to inform Part 1 of the study, whilst contact was made with the site promoters of the strategic sites (Part 2) in order to ensure the study was able to benefit from a consideration the most up to date and detailed, site specific information.

PART 4: A viability review of four consented strategic schemes

1. The Schemes

1.1. Context

North West Leicestershire District Council has chosen four key schemes for DTZ to review, from a schedule of developments that either have planning permission (Identified in Policy H1 of the Draft Local Plan), or for which it has resolved to grant planning permission, and which are identified in the proposed Policy H2 of the Draft Local Plan.

The schemes, highlighted in the schedules below, are:

H1d	Holywell Spring Farm, Burton Road Ashby de la Zouch	400 dwellings
H1g	South of Park Lane, Castle Donington	895 dwellings
H1n	Land north of Grange Road , Hugglescote	800 dwellings
H2b	Standard Hill/West of Highfield Street, Coalville	400 dwellings

These particular schemes have been chosen from the on the basis of their significant size, which makes them important to the delivery of the Local Plan.

Policy H1 – Housing provision : planning permissions

The following sites have the benefit of planning permission for housing development. In the event that planning permission lapses on these sites it will be renewed subject to the policies of this Local Plan and any other material considerations including any evidence in respect of deliverability of any particular site.

Any development provided for within this policy which discharges wastewater into the Mease catchment will be subject to the provisions of policy En2. Any such development which does not meet these provisions will not be permitted.

	Site	Capacity
H1a	Off Measham Road, Appleby Magna	39 dwellings
H1b	Off Top Street, Appleby Magna	29 dwellings
H1c	Tudor Motors site, New Packington, Ashby de la Zouch	14 dwellings
H1d	Holywell Spring Farm, Burton Road Ashby de laZouch	400 dwellings
H1e	Holywell Mill, Ashby de la Zouch	44 dwellings
H1f	Off Leicester Road, Ashby de la Zouch	101 dwellings
H1g	South of Park Lane, Castle Donington	895 dwellings
H1h	Rear of 138 Bardon Road, Coalville	132 dwellings
H1i	Rear of 164-222 Bardon Road, Coalville	90 dwellings
H1j	Former Forest Way School, Waterworks Road, Coalville	24 dwellings
H1k	Former Pick & Shovel, High Street, Coalville	14 dwellings
H1l	North of Greenhill Road /East of Agar Nook Land Coalville	79 dwellings
H1m	The Farm, Manor Road, Donington-le-Heath	14 dwellings

H1n	Land north of Grange Road , Hugglescote	800 dwellings
H1o	Castle Inn, Dennis Street, Hugglescote	10 dwellings
H1p	Station Road, Ibstock	142 dwellings
H1q	Ashby Road, Kegworth	110 dwellings
H1r	New Street, Measham	20 dwellings
H1s	Off Measham Road, Moira	80 dwellings
H1t	Cresswells Coaches, Shortheath Road, Moira	24 dwellings
H1u	166 Spring cottage Road, Overseal	11 dwellings
H1v	Ibstock Road, Ravenstone	65 dwellings
H1w	Heather Lane, Ravenstone	50 dwellings
H1x	Church Lane, Ravenstone	27 dwellings
H1y	Fox Inn, Main Street, Thringstone	23 dwellings
H1z	61-65 Grace Dieu Road, Whitwick	12 dwellings

Policy H2 – Housing provision: resolutions

The Council has resolved to grant planning permission for housing development on the sites listed below. The Council will work with developers and applicants to ensure that the legal agreements associated with these developments are completed as efficiently as possible so that permission can be issued. Once planning permission is granted it will be subject to the provisions of Policy H1.

Any development provided for within this policy which discharges wastewater into the Mease catchment will be subject to the provisions of policy En2. Any such development which does not meet these provisions will not be permitted.

	Site	Capacity
H2a	South of Burton Road, Ashby de la Zouch	275 dwellings
H2b	Standard Hill/West of Highfield Street, Coalville	400 dwellings
H2c	Off Jackson Street, Coalville	129 dwellings
H2d	Off Kane Close, Coalville	21dwellings
H2e	Rear of Frearson Road, Hugglescote	188 dwellings
H2f	South of Grange Road, Hugglescote	105 dwellings
H2g	North and south of Grange Road, Hugglescote	2,700 dwellings
H2h	Slack & Parr, Long Lane, Kegworth	181 dwellings
H2i	West of High Street, Measham	450 dwellings
H2j	Land at Blackfordby Lane, Moira	18 dwellings
H2k	Home Farm, Main Street, Oakthorpe	29 dwellings
H2l	Loughborough Road, Thringstone	85 dwellings

1.2. Viability Assessment Approach

The method used to assess the viability of these four schemes is consistent with that used in the previous sections (Part 1 – Site archetype modelling, Part 2 – Strategic Sites, and Part 3 – Notional New Settlement), but the modelling process has been inverted.

The residual land value approach, used in Parts 1,2 and 3

The 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.**”

- If there is a residual land value that is higher than the benchmark threshold land value (for “a willing landowner”), then the development can be deemed viable; if it is below then the development will not be considered viable by the market.

Instead of assuming a fixed developer profit (sufficient for a willing developer), and then testing the residual land value against a threshold land value (sufficient for a willing landowner), the land owners return is fixed (at the calculated threshold land value) in these appraisals.

The test each consented scheme is subject to, allowing for the financial impact of the obligations in the signed Section 106 agreement, and assuming a minimum return for the landowner, is will it generate a sufficient profit for prospective, willing developers?

2. 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.

2.1. Model Targets – What defines Viability?

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.

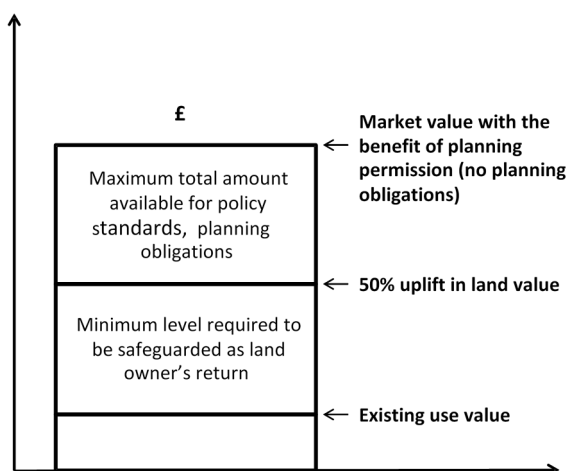
For each site appraised, the model calculates a residual land value (including an allowance for a competitive profit return prerequisite for a willing developer) to determine whether it is above “threshold” land values deemed sufficient to “provide competitive returns to a willing land owner to enable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

As with the previous Parts of this study, the landowner return for each site has been calculated using the “50% uplift” approach. i.e.



Benchmark site value = (Market Value* / 2) + Existing Use Value

*market value is the residual land value of the archetype assuming planning permission for the proposed development, excluding the costs of any planning obligations.

2.2. Model Inputs

The model inputs applied are based on the following approach:

- Core Development Parameters, such as site area, number of dwellings, land use schedule, are drawn from the planning application documents, and the signed Section 106 agreement
- Planning obligations, including commuted sums required and their timing, and the amount of affordable housing required, including tenure breakdown, are drawn from the signed Section 106 agreement
- Certain development viability modelling assumptions, based on the nature of the proposed development, are drawn from the planning application documents, and, where submitted, the viability appraisal prepared for the scheme by the applicants and / or the third party appraiser. These include development density, phasing assumptions, and the average proposed sizes of the dwellings
- Other development viability modelling assumptions, which relate to the state of the market, including, build costs, fees, debit rate, rate of development, and sales values, have been applied by DTZ and are consistent with the modelling assumption used in the other parts of this study. Certain adjustments have been made:
 - o to the £/sqft sales rate, to account for the particular average size of dwellings, where the size is different to the archetypes used in other parts of the Study
 - o to the £/sqft build cost for the two large (800dw) schemes, reduced to £85/sqft, on account of their development scale, reflecting DTZ's market experience with such sites
- Where site specific infrastructure costs, and their phasing, are known (from the planning and viability documents associated with the consent), these have been used, and adjusted for inflation (applying the BCIS Tender Price Index from the date of the Section 106 agreement (to the nearest quarter) to Quarter 2 of 2015. Where these costs are not known (Land North of Grange Road - 800dw, and Hollywell Spring Farm – 400dw), we have estimated the site specific infrastructure costs on the basis of the equivalent of £20,000 / dwelling for the 800 dwelling scheme, and an additional £6.5/sqft additional build costs, for the 400 dwelling scheme.

3. Viability Testing

3.1. Introduction

Appraisal summaries of the four sites are presented below, including headline assumptions. As set out in Section 1.2, each consented strategic site has been viability tested, taking into account the planning obligations set out in the signed Section 106 agreement, and assuming a threshold land value the landowner might reasonably expect as a minimum return³. With these, and other general, and site specific, development assumptions fixed, the development appraisal for each site calculates a projected profit level for each scheme.

Scheme	Hollywell Farm, Ashby (H1d)	South of Park Lane, Castle Donington (H1g)	Standard Hill, Coalville (H2b)	Grange Road, Coalville (H1n)
Headline Assumptions				
Gross Development Area	49.4 acres	116.9 acres	47.9 acres	93.9 acres
Dwellings	400	895	400	800
Average Dwelling Size (Open Market)	1,025sqft	1,105sqft	1,210sqft	1,055sqft
Average £/sqft Sale (Open Market)	£225	£202	£175	£180
Build Cost £/sqft	£91	£85	£91	£85
% Affordable (Tenure)	30% (65% Aff. Rent / 35% Intermediate)	12% (70% Aff. Rent / 30% Intermediate)	11% (70% Aff. Rent / 30% Intermediate)	20% (42% Social Rent / 28% Aff. Rent / 30% Intermediate)
Section 106 / dw	c. £5,500 / dw	c. £10,225 / dw	c. £7,600 / dw	c. £5,000 / dw ⁴
Infrastructure Abnormals	c. £2.4m ⁵	£20.3m	£5.5m	£18.3m ^{6,7}
Threshold Land Value (£/acre⁸)	£240,000 / acre	£107,000 / acre	£103,000 / acre	£100,500 / acre
Appraisal Summary				
Land Acquisition ⁹ (@ Threshold Land Value)	£12.5m	£21.9m	£4.9m	£9.4m
Build (including Fees and Contingency)	£36.6m	£91m	£46.4m	£70.9m
Infrastructure and Section 106	£4.6m	£30.5m	£8.5m	£22.35m
Finance Costs	£1.8m	£3.7m	£1.1m	£4m
Marketing and Sales	£0.97m	£5.2m	£2.3m	£3.6m
Total Costs	£57m	£152m	£64m	£111m
Total Receipts (Development Value of Housing and receipts from other uses)	£75m¹⁰	£190m¹¹	£79m	£131m
Profit on Gross Development Value (%)	23%	22%	19.1%	15%

³ Based on our assumptions

⁴ For the purposes of this analysis, the offsite highways contribution from the Grange Road development is considered an infrastructure abnormal

⁵ DTZ Estimate based on high level assumption, no site specific information available

⁶ £18.3 million infrastructure figure for Grange Road Includes the "offsite highways" contribution of £790,619, stipulated in the S106 agreement, in addition to a DTZ high level estimate for onsite infrastructure (no site specific cost information available)

⁷ DTZ Estimate based on high level assumption, no site specific information available

⁸ Expressed per gross acre, on the basis that all sites are greenfield sites, currently in agricultural use

⁹ Including acquisition costs at 5.8%

¹⁰ Includes £0.6m receipt for Care Home

¹¹ Includes £4.87 million receipt for employment land

3.2. Interpreting Viability

Holywell Farm, Ashby (H1d), and South of Park Lane, Castle Donington (H1g)

The viability testing suggests that the strategic sites at Holywell Farm, Ashby, and South of Park Lane, Castle Donington remain viable propositions (both suggesting that developer return of at least 20% on value should be achieved), and following the recent signing of the Section 106 agreements, further progress towards a start on site for these schemes is to be expected.

These results are encouraging, especially given the recent notable increases in construction costs, which are reflected in the appraisals. This is especially the case for the South of Park Lane site in Castle Donington, for which there is a significant infrastructure requirement, and in this case we have taken the assumed infrastructure costs from 2013 and increased them by 10% to take account of build cost inflation (based on the BCIS Tender Price Index) since the time they were submitted (Quarter 2, 2013).

Standard Hill, Coalville (H2b)

This site performs less well than the Ashby and Castle Donington sites, with a profit of 19% on value projected, just short of the 20% target, and hence might be considered a marginal scheme. Notwithstanding this it is reasonable to suggest that the scheme will progress in the medium term, especially on the basis that the viability modelling has taken into account the recent significant build cost inflation (nearly 10%) that we have applied to the infrastructure costs, which have a base date of Quarter 4, 2013.¹² Over the course of the next five or so years (the build out period of the site), the “net”¹³ inflationary effect may be tempered somewhat. It is also notable that the projected rate of profit is compatible with the rate of profit that the site developer (also the promoter) has suggested is acceptable at the time of the original viability appraisal submitted to North West Leicestershire District Council.

Grange Road, Coalville (H1n)

The viability modelling suggests that the site may not be deliverable on the basis of the current requirements of the Section 106 agreement, with a profit of 15% on value projected by our modelling. Adjusting the affordable housing (and assuming the same tenure mix, which includes social rented housing), however, to 15%, for example, results in a projected return of 18% profit on value, which suggests a marginally viable scheme with such an affordable housing contribution.

Notably, our modelling of the infrastructure costs (with the exception of the off-site highways contribution forming part of the Section 106 agreement), is only based on a high level assumption (the applicants did not submit a viability appraisal in 2012 on the basis that it was making a full 20% affordable housing contribution, consistent with the affordable housing policy requirement for the area, at the time), and this needs to be borne in mind when considering the results of this high level appraisal.

¹² We presume, based on the timing of the submission of the viability appraisal

¹³ Taking into account sales inflation over the time period

Also worth considering, given the large size of the scheme, is that relatively modest changes in cost allowances, sales rates and timings (especially infrastructure), Section 106 trigger points, affordable housing mix (tenure mix, for example a higher proportion of affordable rent over social rent), can have a significant cumulative impact on viability. On this basis, it is not unreasonable to conclude that the scheme would be deliverable with affordable housing of around 15% (with all other Section 106 contributions fixed as was, save for a possible adjustment in the tenure mix, and timing of contributions), subject to a full and detailed review of viability.