



Proposed Publication Version Local Plan, Viability Review (Addendum)

NORTH WEST LEICESTERSHIRE DISTRICT
COUNCIL

9 March 2017

Cushman & Wakefield
No 1 Colmore Square
Birmingham
B4 6AJ

Contents

Introduction	2
1. Viability Modelling Approach	2
1.1 Context	2
1.2 Study Approach	3
2. Policy Context	4
2.1 Policy	4
2.2 Timing of This Study	4
3. Viability Model Workings and Assumptions	5
4. Viability Testing	7
4.1 Introduction	7

Introduction

This paper forms an addendum to the viability review of the Proposed Publication Version Local Plan for North West Leicestershire (17 June 2016), specifically considering the viability of residential site archetypes of 11 dwellings, in relation to the impact of the policies, including affordable housing, of the Local Plan on the viability of development.

1. Viability Modelling Approach

1.1 Context

The Local Plan Viability Review of June 2016 considered development viability at 29 development site archetypes, reflective of the pattern of sites which may come forward over the Local Plan period (based on policy S3 – Settlement Hierarchy, and information provided by North West Leicestershire District Council on prospective housing sites within these settlements). These archetypes were tested for delivery viability against draft local plan policies – specifically, affordable housing (H4), housing type and mix (H6) and Section 106 contributions (IF1, IF2 IF3, IF4, EN4, EN1, EN2, EN3, EN5) and open space (IF3).

This addendum extends the analysis to site archetypes specifically of 11 dwellings (at 30dph and 35dph), a quantum that was not specifically tested within the June 2016 study, on the basis that this is the threshold for affordable housing provision, and it was required to be considered if the viability of this size typology would be materially different from that of the larger archetypes tested.

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

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

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

1.2 Study Approach

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

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

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

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

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

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

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

2. Policy Context & Timing

2.1 Policy

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

This policy tested for the additional 11 dwelling modelling remains as that set out in the June 2016 report, which reflected the proposed publication Local Plan.

2.2 Timing of This Study

As with the June 2016 study, the modelling in this addendum, is based on assumptions data gathered in May 2016.

3. Viability Model Workings and Assumptions

For the additional 11 dwelling schemes to be tested, size archetypes were developed:

- at a density of 35 dwellings per hectare (Site archetype of 0.78 acres/0.31 ha), and,
- 30 dwellings per hectare (Site archetype of 0.91 acres/0.37 ha).

These were the same density assumptions tested in the modelling behind the June 2016 study, consistent with the 11 dwelling scheme modelling adopted the same workings and approach as the June 2016 study.

The 11 dwelling scheme archetypes were tested across the same cross section of archetypes as the June 2016 study, as follows.

Market Value Band	Settlement Status	Context	Settlement	Site Size (Gross) ha	Density (Dwellings per net developable hectare)	
Primary	Key Service Centres	Greenfield	Ashby	0.314	35	
				0.367	30	
		Brownfield		0.314	35	
				0.367	30	
		Greenfield		Castle Donington	0.314	35
					0.367	30
	Brownfield	0.314	35			
		0.367	30			
	Local Service Centre or smaller	Greenfield	Kegworth & Measham		0.314	35
					0.367	30
		Brownfield	Kegworth Brownfield	0.314	35	
				0.367	30	
Measham Brownfield			0.314	35		
			0.367	30		
Secondary	The Coalville Urban Area	Greenfield	Coalville Urban Area	0.314	35	
		Brownfield		0.314	35	
	Local Service Centre (e.g. Ibstock) or smaller	Greenfield	Local Service Centre (e.g. Ibstock) or smaller	0.314	35	

For the affordable housing, the tenure blend analysed was that as recommended in the Strategic Housing Market Assessment i.e.

- 81% Rented (we have assumed 41% Social Rented and 40% Affordable Rented) and 19% Intermediate (Equity Based) housing, as recommended in the Strategic Housing Market Assessment.

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.

4. Viability Testing

4.1 Introduction

This section presents and considers the results of the viability testing for the 11 dwelling archetypes.

To recap, central to the assessment of the viability of housing development is the concept of residual land value.² 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, at each level of affordable housing provision tested, the model calculates a residual land value 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.”

If the residual land value that is higher than the benchmark threshold land value, then the development can be deemed viable at the level of affordable housing tested.

On this basis, Column G, in the table below, presents the number of affordable housing dwellings that the modelling suggests is viable, for each archetype. Column H rounds this figure to the nearest 5% for the purposes of comparison with the 1 hectare (gross) archetype (Column I) modelled in the June 2016 study (For comparison, on a net developable area basis, this assumed 25 dwellings @ 30dph, and 29 dwellings @ 35dph).

² This approach is applied for property with development or redevelopment potential. This equation is: Completed Development Value less Construction and development cost; less on cost and finance costs; less Developers Profit = Residual Land Value.

A	B	C	D	E	F	G	H	I
Market Value Band	Settlement Status	Context	Settlement	Site Size (Gross) ha	Density (Dwellings per net developable hectare)	Number of affordable dwellings deliverable	Percentage (to nearest 5%) of affordable dwellings deliverable for 11 dw archetype	Percentage (to nearest 5%) of affordable dwellings deliverable on 1 ha archetype (for comparison)
Primary	Key Service Centres	Greenfield	Ashby	0.314	35	4	35%	20%
				0.367	30	3	25%	30%
		Brownfield		0.314	35	1	10%	10%
				0.367	30	2	20%	10%
		Castle Donington	Greenfield	0.314	35	3	30%	20%
				0.367	30	2	20%	25%
			Brownfield	0.314	35	0	0%	5%
				0.367	30	0	0%	5%
	Local Service Centre or smaller	Greenfield	Kegworth & Measham	0.314	35	3	30%	20%
				0.367	30	2	20%	25%
		Brownfield	Kegworth Brownfield	0.314	35	0	0%	5%
				0.367	30	0	0%	5%
			Measham Brownfield	0.314	35	0	0%	5%
				0.367	30	0	0%	5%
Secondary	The Coalville Urban Area	Greenfield	Coalville Urban Area	0.314	35	1	10%	5%
		Brownfield		0.314	35	0	0%	5%
	Local Service Centre (e.g. Ibstock) or smaller	Greenfield	Local Service Centre (e.g. Ibstock) or smaller	0.314	35	1	10%	5%

The modelling suggests a similar or better performance for the 11 dwelling archetype (compared to the 1 ha archetype) in seven of the seventeen development archetypes tested (these mainly, but not all, being greenfield archetypes), and a worse performance in ten of the archetypes tested (these mainly, but not all, being brownfield archetypes).

The differentiated performance of the 11 dwelling archetype between greenfield and brownfield, reflects a trend shown in the wider study, and this considered, on balance, the performance of the 11 dwelling archetype is not significantly inferior to that of the larger, 1 ha, archetype, indeed it performs similar or slightly better in seven out of the seventeen (or 40%) of the archetypes tested.

