

Conwy Deposit Local Development Plan 2007 – 2022 (Revised edition 2011)



BACKGROUND PAPER 34

Site Viability Assumptions Paper

March 2011

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1 Introduction

Conwy Deposit Local Development Plan (LDP)

- 1.1 Over the period 27 April 2009 to 3 July 2009, Conwy County Borough Council undertook consultation on the Conwy Deposit Local Development Plan (LDP). The Deposit LDP was supported by 26 Background Papers (BP). BP/9 'Affordable Housing Assessment' assessed the overall need for affordable housing at settlement level and undertook viability assessments of each of the proposed housing allocations through the Three Dragons Development Appraisal Toolkit (DAT). This work was started in 2007 when the property market was still strong.
- 1.2 It was recognised that the policy based approach for Affordable Housing provision on private and Council owned sites within the Conwy Deposit LDP were likely to impact on both the land values and viabilities of different housing development sites. Therefore, it was felt necessary to further explore the impact of the proposed policies in simple viability appraisals for different scenarios and locations, in consultation with the house building industry, to provide further evidence base to support the submission of the Conwy LDP.
- 1.3 Due to the downturn in the market from around February 2008 onwards, and as a result of representations received following the public consultation on the Deposit LDP, we are seeking comments on the assumptions below to allow us to carry out some further modelling to ensure that the evidence base is robust and credible at submission of the LDP.
- 1.4 The appraisals will be carried out using the DAT, which is one of the leading residual valuation software packages used by the property industry in this country. Several assumptions are made within the DAT to cover such issues as development costs, construction costs, developer profit, developer contribution costs, etc to which the Council would also encourage your comments on. We have made here a number of assumptions which are set out in detail in this paper. Please note that the DAT will be made available for purchase soon. Further details will be provided on the Council's website along with examples of viability testing on hypothetical sites.

- 1.5 This approach is taken to enable the Council to appraise the viability of potential sites proposed in the LDP and new sites submitted during the consultation on the Deposit LDP – the Alternative Sites. The information contained in this paper will inform a revised Background Paper on Affordable Housing Assessment when the revised LDP is issued for public consultation in **March 2011**. The LDP will be subject to Annual Monitoring Reports following adoption, where issues such as the affordable housing target will be reviewed.

2 Development Appraisal Toolkit (DAT)

- 2.1 To assess the viability of sites with potential for housing we have used, and will assess future sites using, the DAT. This is a model which is widely accepted by both local authorities and house builders. It adopts a residual valuation development appraisal approach and calculates net residual values based on the difference between scheme revenues and schemes costs. The Development Appraisal Toolkit (or DAT) provides the user with an assessment of the economics of residential development for specific schemes. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing. The user can alter a range of different assumptions including house prices, grant rates, density and build costs and compare the results these generate.
- 2.2 The DAT can be an aid to decision making but it cannot make decisions. It does not say if such and such a residual value is achieved then development can or cannot go ahead. However, it gives the user information about the economics of development, which can be taken into account, along with a range of other factors about the site, in making decisions about proposed schemes, be they at outline planning application or a full/detailed application stage. The DAT can also be used to help in policy development when the user tests out the impact of different amounts and types of affordable housing on a series of notional schemes in different market areas.
- 2.3 The DAT compares the potential revenue from a site with the potential costs of development **before a payment for land is made**. Developers should not expect affordable housing provision to be reduced or waived simply because the

associated costs were not taken into account when the land was purchased (NB. Financial Viability Assessments based on such a premise are unlikely to carry any weight). Therefore, the land acquisition/purchase cost should include the cost of providing affordable housing, together with the planning obligations, overcoming development constraints and land assembly.

- 2.4 Assumptions made in this document have been agreed with Three Dragons (the DAT creators) and the House Builders Federation (HBF). Costs will be updated on an annual basis (by financial year) through consultation with Three Dragons and HBF.

3 The Policy Position

- 3.1 In considering a housing scheme, the Council acknowledge that from the developer point of view, a number of basic decisions must be made in relation to whether or not a particular site is viable for housing development. Firstly, the developer will appraise what sort of units will likely sell in the current local market, and the price they will achieve. Secondly, how many units of that size and type can be provided on the site (Density) For illustrative purposes the analysis is kept very simple. As an underlying principle, the Council is fully aware that the developer will, for example, assume that the site can provide 100 units which are likely to sell at £300,000 each (e.g. 4 bed family homes). This means that the total amount of sales revenue that can be achieved from the site is £30m (100 x £300,000). The Council accepts that the developer will then work backwards by deducting from the Sales Revenue the gross development revenue or the value of the total build costs.
- 3.2 These costs will vary considerably between sites and the Council acknowledges there may be exceptional issues that may impact on the viability of a particular site over the lifetime of the LDP. This might be due to additional costs, such as land decontamination or restoring a listed building, changes in social housing funding regimes or other factors. At present it is thought that such circumstances would be the exception not the rule. To deal with changing circumstances, the LDP has flexibility built in to the policy which allows for developers to negotiate for reduced contributions under certain circumstances, again with a viability assessment.

3.3 Policies HOU/1 & HOU/2 set out in the Deposit LDP allow for exceptions to be made should this be the case; this will need to be demonstrated with an independent financial viability assessment, taking into account the following:

- Land value: existing use value via Red Book valuation
- Site / scheme size
- Density
- Construction costs
- Site difficulties / exceptional costs
- Developer profit (profit on cost ratio)
- Infrastructure requirements
- Local housing / affordable housing requirements
- Other policy requirements: renewables, planning obligations etc.
- Grant funding, if available
- Sales value

4 The Assumptions

Section 106 Costs (Obligations)

4.1 The DAT allows the user to consider the impact of a range of different planning obligations, which will be assessed and considered on a site by site bases in terms of overall requirements and constraints. However, the option is provided in DAT to use a default figure per unit set out in the 'Obligations Package per Unit' section.

4.2 It must be noted that such issues can generally only be applied on a site by site basis due to the unknown level of contributions required. An assessment of all requirements has been made on sites proposed within the Conwy Deposit LDP to date and will be applied to the DAT assessment.

4.3 A draft Supplementary Planning Guidance (SPG) document on Planning Obligations has been produced for the Council and this will be issued for public consultation alongside the revised Deposit LDP. The SPG states that the Council will negotiate obligations in the following order of priority (section 3.13 of the SPG):

- a) Works required to secure a safe environment for the community and future occupiers of the proposed development (e.g. satisfactory access arrangements, off-site highways improvements, flood risk);
- b) In the case of residential development, the provision of affordable housing to meet the needs of the local community;
- c) Measures required to meet the needs of the future occupants of the proposed development where the failure to provide the measure would impose unacceptable impacts on the local community (e.g. public open space provision, education);
- d) Measures required to mitigate the impact of the proposed development of the local community or matters of acknowledged importance (e.g. natural or built environment).

4.4 The choices made will reflect the site circumstances, the proposed land use, the scale of the proposed development and the issues facing the local community. As a consequence, the local circumstances may require a reordering of these priorities.

4.5 For the purpose of future viability assessments, a figure of **£7,500 and £15,000 per unit** for obligations, other than affordable housing, will be applied, unless other site obligations are required or known. These figures are in line with DAT assessment examples from Local Planning Authorities in South Wales (see also South East Wales Strategic Planning Group example). However, the Council encourages pre-application discussions to assess the correct level of obligations. An open book approach is encouraged, where higher obligations will be applied to larger schemes. For the purpose of assessing the LDP proposed sites, a figure of between £7,500 and £15,000 will be applied.

4.6 The allowance for enhanced environmental standards for new buildings, with the introduction of the Sustainable Code for Development, has been made. We have taken current (BCIS) costs i.e. the costs of development in the locality as a benchmark. Going forward, it is likely that costs will rise as a result of the impacts of the Code for Sustainable Homes (CSH). In meeting the minimum CSH Level 3, the

average cost is around £5,000 according to the recent DCLG¹ research. This additional cost could be offset by annual house price inflation. Achieving the Code for Sustainable Homes Levels 4, 5 and 6 would require significant house price increases to offset the viability impacts. Given the uncertainty in the housing market and question marks about how quickly higher Code levels might be achievable, it may be spurious to try to predict the impacts of these factors on viability at this stage. Nevertheless, estimate figures are now available and the implications of higher levels of housing development will be taken into account in line with recent Communities and Local Government (CLG) data (see Appendix 1). Voluntary attempts to comply with Code levels above those required (e.g. aiming for CSH Level 4) should not be seen as a way to gain credit against affordable housing viability.

Planning Application Fees

4.7 For certainty it will assumed that the application is for a 'Full Application'. The fee would be £330 per proposed unit up to a maximum of £250,000 as represented below:

- 50 dwellings –£16,464
- 16 dwellings - £5,280
- 10 dwellings - £3,300
- 5 dwellings - £1,650

Development Costs

4.8 Development costs are 'build costs plus all other costs'. They include the base build cost plus professional fees, finance costs and developer return. In addition, there are marketing fees for sale housing. The DAT divides development costs into a number of components – 'Build Costs', 'Other Development Costs', 'Wheel Chair Costs' and 'Exceptional Costs'. DAT provides default values for these and also allows the user to provide their own values if better information is available.

¹ DCLG (2008) *Cost Analysis of The Code for Sustainable Homes*

'Build Costs'

4.9 'Build costs' are taken directly from the secondary data source, namely the BCIS Quarterly Review. These 'costs' are based on tender price/m². The sample schemes from which these costs are drawn are, according to the BCIS, predominantly social housing or RSL development. The BCIS base costs do not include, in their raw form, an element for external infrastructure/special landscaping; they also do not include an allowance for professional fees.

- Houses < = 75m² equates to £952 per sq m
- Houses > = 75m² equates to £836 per sq m.
- Flats (16+ storeys) = £1,836 per sq m
- Flats (6-15 storeys) = £1,486 per sq m
- Flats (5 storeys and less) = £1,114 per sq m.
- Bungalows = £960 per sq m

4.10 The DAT does not provide default values for conversion schemes. Where conversion schemes are known in the proposed LDP sites, current costs of such schemes will be factored in based on Building Control information.

'Other Development Costs'

4.11 Other standard costs used within the viability exercise are as follows:-

- Professional Fees – 12% of build costs
- Internal Overheads – 5% of build costs
- Finance (Market Housing) – 6% of market value
- Finance (Affordable Housing) – 6% of development costs
- Marketing Fees - 3% of market value
- Contractors Return - 5% of affordable housing construction costs
- Sales and legal fees - 1% each
- Agent and legal fees - 1% each
- Cost of finance - 7% per annum
- Contractor Return – 5% of build costs

(Note – the professional fees, overheads, finance, marketing and contractors return fees were agreed in July 2009 between Three Dragons and HBF Wales).

'Wheel Chair Costs'

- 4.12 Wheelchair units are both larger (for the same unit type) and cost more per square metre to build. This requirement is specific and needs to be assessed on a site by site basis in terms of overall type of housing need in the location. It is based on the requirements of the Disability and Discrimination Act. An issue such as 'wheel chair costs' will be applied nearer to the planning application stage.

'Exceptional or abnormal Costs'

- 4.13 DAT allows the user to specify development costs specific to the scheme which are considered unusually onerous – known as 'exceptional development costs' e.g. contamination and site clearance. DAT allows the user to set a default 'exceptional development cost' figure based on data supplied by Buildings Costs Information Service (BCIS). However, the Council acknowledge that costs tend to be higher in dense urban areas reflecting labour costs as well as difficulties in accessing sites. The costs of developing housing in rural areas can also be costly. Additionally, it might be reasonable to expect that costs in a locality having many sloping sites would be higher than for a locality where sites are mainly flat. Therefore, CCBC will request specific information from developers on what they consider to be exceptional development costs. The Council will not automatically assume that because a site is brownfield or previously used that 'exceptional costs' will be incurred. The question for the Council in assessing sites will be: *'Are the development costs associated with this site significantly more onerous than are found on most sites in the local authority?'* If the answer is 'yes', and evidence provided, then allowance can be made for this. Therefore, this section of testing the viability of sites will be considered on a site by site basis.

- 4.14 Examples of exceptional or abnormal costs include (but should not be limited to) the following:
- Demolition
 - Decontamination
 - Piled or Raft foundations
 - Infrastructure (if not included in the build rates)
 - Diversion of existing services

- New substations
- Certain materials.

4.15 Each site is considered to require a small amount of demolition and site preparation so an allowance of £1 per square foot has been added to the build costs. This figure is based on our best estimates for a site clearance with no contamination or deleterious materials. Sites with contamination would be at a higher cost than this which would affect the viability. However this would need to be assessed on a site specific basis which is not the purpose of this appraisal exercise.

Profit Levels

4.16 Before the credit crisis, most developments were carried out on the basis of 15% developer return on market value. Finance was also available on this assumption. Currently finance is not generally available other than upon the basis of 17% net profit on Gross Development Value (GDV) and both appraisal types have been carried out on these bases.

Stamp Duty

- £0 - £175,000 = 0%
- £175,000 - £250,000 = 1%
- £250,000 - £500,000 = 3%
- £500,000 plus = 4%

Sales Prices Area Current Values

4.17 The DAT must have information about market value of the sale units to provide its estimates of the revenue from the scheme. Data on pre-recession and during recession are provided below. To ensure the DAT assessment is correct, the Council has registered with the web-based house price system 'hometrack.' This provides up-to-date house sales prices by area.

Affordable Percentages

4.18 For the purposes of the DAT, 'affordable housing' is the collective name given to Social Rent, Homebuy, Intermediate Rent and Equity Share.

4.19 Across the sites, and when varying other key variables, affordable housing provision has been tested at, above and below the 50% figure to ascertain the maximum level the site can viably sustain under different site conditions.

4.20 On sites where the total number of units provided is odd and 50% affordable housing is being tested, it has been assumed that the developer will provide more private than affordable units. E.g. on a site with 5 units at 50% affordable housing the developer will provide 3 units private and 2 affordable.

Affordable Tenure Split

4.21 DAT offers users the facility to vary percentages of different tenures. As well as sale housing, there is social rent and the 3 types of intermediate tenure (Homebuy, Intermediate Rent and Equity Share).

4.22 In assessing viability above and below the 50% figure, the following tenure splits need to be calculated in order to check the effect of each requirement and to choose what best represents the affordable requirement and the most viable tenure available:-

- Intermediate 100% - Social Rented 0%
- Intermediate 70% - Social Rented 30%
- Intermediate 50% - Social Rented 50%
- Intermediate 30% Social Rented 70%
- Intermediate 0% Social Rented 100%

4.23 Where information on identified need is available (for example, Local Housing Market Assessment and Housing Enabler information) the tenure split will be applied accordingly.

Grant

4.24 The DAT allows the Council to consider sources of revenue to the residential scheme from a range of different capital contributions. There is a list of typical contributions as follows:

Contribution	Input by Total	Input by Unit					Calculated Total (affordable and sale)
		Sale	Affordable				
			Social Rent	Homebuy	Intermediate Rent	Equity Share	
Welsh Assembly Government							
Subsidy for intermediate Rent							
EU Funding							
Local Authority Capital Grant							
Other regeneration Funding							
Lottery Grant							

4.25 The addition of Registered Social Landlord (RSL) funding to a scheme is aimed at increasing the level of affordable housing that can be provided. To support the submission of the LDP, future viability will be modelled without grant (see next section).

Capital Value of Affordable Housing

4.26 Scheme revenue calculated by the DAT includes revenue from the market housing and from the affordable housing. For the affordable housing, the underlying principle of the DAT is that there is a capital value for each unit and that the provider of the affordable housing (typically a housing association) will pay the developer this capital value. The sum of these values counts towards total scheme revenue. Four options are given, which will be assessed on a site by site basis:

- Capital value is based on Acceptable Cost Guidance (ACG) – grant is available (assumes payment from Housing Association to developer is calculated on the basis of appropriate ACG values)

- Capital value is based on ACG – grant is not available (capital value for social rent and Homebuy is reduced by the amount of grant which would have been available, had the scheme attracted grant)
- Capital value is based on income to the housing association – grant may be available (for social rent, the amount of borrowing which the net rent to the Housing Association will support (or its capitalised net rent); for Homebuy, the average percentage of market value purchased by the purchasers – there is no rental payment)
- Capital value is agreed between the housing association and the developer (entered either on a per unit basis, per tenure or as a single lump sum covering all affordable tenures applicable to the scheme)

4.27 Because of the difficulty in obtaining grant for schemes, the Council will assume no ACG grant is given, in agreement with Three Dragons.

‘Net’ versus ‘Gross’ Site Developable Area

4.28 In the analysis, no allowance has been made for non-developable land within major greenfield development e.g. land for open space, distributor roads etc. The figures presented are based on net developable site area. The net area excludes main roads, buffer zones, structural landscaping, other uses such as shops, and general open space. They do not include local access roads, parking areas, footpaths and local open space, for example children’s play areas. Smaller sites will typically make use of existing roads and facilities, potentially enabling up to 100% of the site area to be developed for housing. In addition, development of individual sites may be affected by constraints such as wildlife and biodiversity interests.

- Clearly, the gross (pro-rata hectare) value will be lower on a gross basis than a net. A land owner that achieves a higher net to gross figure will normally achieve a higher return. The figures within DAT will need to be adjusted according to the net to gross ratios achievable in sites coming forward. Due to the complexities and constraints of various sites, the levels of net and gross developable area will be assessed on a site by site basis.

Further information on the Council’s Affordable Housing Delivery Statement and examples of viability testing using the DAT is available at www.conwy.gov.uk/affordablehousing

5. Appendix 1

Taken from Code for Sustainable Homes: A Cost Review (CLG, March 2010)

Summary of extra-over costs of building to each level of the Code in each of the dwelling types and for a range of development scenarios.

Extra-over costs (E/O) costs are measured from a baseline of constructing a 2006 Building Regulation compliant dwelling and are tabulated as an absolute cost and as a % increase over the base build cost.

Code Level	2b-Flat		2b-Terrace		3b-Semi		4b-Detached	
	E/O cost	%	E/O cost	%	E/O cost	%	E/O cost	%
Small brownfield (20 dwellings at 80 dph)								
1	£310	0.5%	£230	0.3%	£360	0.4%	£310	0.3%
2	£1,870	2.8%	£1,820	1.9%	£1,040	1.1%	£970	1.0%
3	£2,460	4.1%	£2,420	2.8%	£3,020	3.2%	£2,660	2.7%
4	£5,810	9.4%	£7,360	8.5%	£8,140	8.7%	£8,030	8.0%
5	£17,740	29.7%	£24,370	28.2%	£26,830	28.6%	£30,130	30.1%
6	£28,510	47.7%	£34,810	40.3%	£38,730	41.2%	£42,770	42.8%
Medium Urban (350 dwellings at 80 dph)								
1	£260	0.4%	£170	0.2%	£260	0.3%	£270	0.3%
2	£1,560	2.6%	£1,500	1.7%	£890	0.9%	£810	0.8%
3	£2,340	3.9%	£2,000	2.3%	£2,900	3.1%	£2,510	2.5%
4	£5,440	9.1%	£7,190	8.3%	£7,970	8.5%	£5,860	5.9%
5	£17,570	29.4%	£24,200	28.0%	£26,650	28.4%	£29,960	30.0%
6	£19,580	32.8%	£26,550	30.7%	£28,390	30.2%	£31,230	31.2%
Large Urban (3600 dwellings at 80 dph)								
1	£250	0.4%	£160	0.2%	£250	0.3%	£260	0.3%
2	£1,550	2.6%	£1,490	1.7%	£890	0.9%	£810	0.8%
3	£2,340	3.9%	£2,000	2.3%	£2,890	3.1%	£2,510	2.5%
4	£6,360	10.6%	£6,200	7.2%	£6,580	7.0%	£6,470	6.5%
5	£16,640	27.9%	£23,210	26.8%	£25,580	27.2%	£28,790	28.8%
6	£23,210	38.9%	£29,920	34.6%	£32,390	34.5%	£36,040	36.0%
Small greenfield (10 dwellings at 40dph)								
1	£320	0.5%	£230	0.3%	£330	0.4%	£320	0.3%
2	£1,820	2.7%	£1,580	1.8%	£990	1.1%	£880	0.9%
3	£2,160	3.6%	£2,120	2.5%	£2,720	2.9%	£2,360	2.4%
4	£5,350	9.0%	£7,150	8.3%	£7,860	8.4%	£8,910	8.9%
5	£17,310	29.0%	£26,970	31.2%	£29,260	31.1%	£32,270	32.3%
6	£27,650	46.3%	£37,400	43.3%	£40,800	43.4%	£45,230	45.2%
Medium edge of town (650 dwellings at 40 dph)								
1	£270	0.5%	£190	0.2%	£370	0.4%	£290	0.3%
2	£1,550	2.6%	£1,500	1.7%	£920	1.0%	£810	0.8%
3	£2,090	3.5%	£2,050	2.4%	£2,650	2.8%	£2,310	2.3%
4	£5,280	8.8%	£7,080	8.2%	£7,800	8.3%	£6,840	6.8%
5	£17,240	28.9%	£26,900	31.1%	£29,190	31.1%	£32,200	32.2%
6	£24,080	40.3%	£31,250	36.1%	£33,090	35.2%	£36,180	36.2%
Large edge of town (3,300 dwellings at 40 dph)								
1	£270	0.5%	£180	0.2%	£370	0.4%	£290	0.3%
2	£1,550	2.6%	£1,490	1.7%	£920	1.0%	£810	0.8%
3	£2,090	3.5%	£2,050	2.4%	£2,640	2.8%	£2,310	2.3%
4	£5,280	8.8%	£7,080	8.2%	£7,790	8.3%	£6,830	6.8%
5	£17,230	28.8%	£26,890	31.1%	£29,190	31.1%	£32,200	32.2%
6	£27,710	46.4%	£34,620	40.0%	£37,090	39.5%	£40,990	41.0%