South Lakeland Land Allocations DPD

Viability Study

April 2013

HDH Planning & Development

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1. Introduction

Scope

1.1 South Lakeland District Council (SLDC) adopted their Core Strategy in October 2010 and is now working towards a Land Allocations Development Plan Document (the DPD)[1]. The independent examination into the soundness of the Land Allocations DPD commenced in October 2012 but has been adjourned and is expected to re-start in the early summer of 2013. Part of the reason for the adjournment was the concern about the deliverability of the Plan's objectives through an inability to deliver both residential and non-residential development sites – and part of those concerns related to doubts over viability.

1.2 In due course SLDC are likely to introduce CIL as a mechanism to fund, at least in part, the infrastructure required to deliver the Development Plan and in particular the sites included in the DPD. The Council is committed to, but has not started the process of, adopting CIL and this report does not extend to the detailed assessment of the *effect* that CIL may have on development viability. The Council's Local Development Scheme sets out the intention to have CIL in place during 2014 and on the 26th March 2013 the Council approved a timetable for introducing CIL.

1.3 There is a close relationship between CIL and other policy requirements so it is necessary to give some consideration as to how infrastructure will be funded – be it through CIL or under a continued s106 regime. We have considered this when assessing viability of sites in the Land Allocation DPD – but have not gone as far as considering whether CIL or s106 is the more appropriate mechanism for funding infrastructure, although it should be noted that the Council has considered this in their Draft Infrastructure Delivery Plan (IDP). The primary purpose of the study is to provide an assessment of viability of sites in the DPD to provide confidence that the Council is doing what it can to facilitate development and that if the sites are included in the DPD they will come forward. It is not the purpose of this study to assess the viability of the policies in the Core Strategy. The Core Strategy has been through a process of public examination, which included consideration of the viability of the affordable housing target. This study and the assessment of the development sites is within the context of the adopted Core Strategy.

1.4 The Council has commissioned other viability research, such as the Viability Impact Study, prepared in 2009 to inform the Core Strategy's affordable housing policy. This study will draw on that work and concentrate on assessing the viability of a group of typical sites that are most likely to come forward over the plan period before then considering a group of sites that are perceived to be subject to abnormal costs.

[1] The SLDC administrative area includes parts of the Lake District National Park and the Yorkshire Dales National Park. The National Parks are subject to separate planning regimes.

1.5 Not all sites will be viable, even without any policy requirements imposed or sought by the Council and it is inevitable that the Council's requirements will render some sites unviable in the current market. Where sites are unviable and vital to the delivery of the Plan, the Council will need to consider how it can facilitate that development, and what it, as a Local Planning Authority and District Council, can do to create the environment to encourage development to come forward. The purpose of this study is to make an assessment of the viability of the Site Allocation DPD in order to make an assessment of its deliverability.

1.6 This report has been prepared following a consultation process with landowners, agents and developers. Three events have been held:

a. **7th February 2013** – Presentation and workshops with promoters of the key development sites within the District and the representatives of the main developers, development site landowners and housing providers. The meeting was used to introduce the development industry to the NPPF and CIL, to set out the methodology test the assumptions used in the report, to put the report in context.

b. **22nd February 2013** – Presentation and discussion with all those with sites included in the DPD including landowners, developers and other stakeholders. The meeting was used to set out the changes that had been made to the assumptions in light of the comments received at and following the first meeting.

c. **11th March 2013** – Discussion with small core group of agents and developers to agree common ground over the few outstanding areas of difference that remained after the previous engagement. The meeting was used to review the main findings and discuss the meaning of 'competitive return' in more detail.

1.7 Additionally the Council provided the presentation to the Housing Advisory Group (public and private sector housing providers) at their meeting on 12th February. It was felt appropriate to include CIL in the consultation process due to the very close relationship between CIL and overall viability.

1.8 We have set out the various comments made through the consultation process through this report, showing where changes in the methodology or assumptions have been made. In this report we have not attributed these comments to the consultees as we undertook to present all representations on an anonymised basis with a view to a more open and frank engagement and to protect commercially sensitive matters.

1.9 During the consultation process there was concern from the industry that costs and values agreed for the purpose of this report would form a precedent and limit the scope to negotiate over specific sites. It was agreed by the Council that this would not be the case. As set out later in this report the methodology closely follows that put forward in the Harman Guidance as being the most appropriate evidence for this type of study. When assessing individual sites it may be more appropriate to follow the RICS Guidance which takes a significantly different approach.

1.10 This study is concerned with development viability which is just one element of the evidence that will be used to prepare the Plan. The Council will strike the balance of achieving their strategic objectives within the practical constraints and commercial realities of delivery. We take this early opportunity to highlight the limitations of this report – as highlighted through the consultation process. We discuss the Guidance we have worked to in later chapters. We have followed the Harman Guidance where ever possible. This says:

…. the viability assessment is not there to give a straightforward 'yes or no' to development across the whole plan area or whole plan period.

Instead the NPPF requires a rolling supply of sites with a "realistic prospect" of being delivered to provide five years' worth of housing, with a further supply of sites with a "reasonable prospect" of being developable for years 6-10 and, where possible, years 11-15.

Metric or imperial

1.11 The property industry uses both imperial and metric data – often working out costings in metric (£/m^2) and values in imperial (£/acre and £/sqft). This is confusing so we have used metric measurements throughout this report. The following conversion rates may assist readers.

1m	=	3.28ft (3' and 3.37")
1ft	=	0.30m
1m^2	=	10.76 sqft (10 sqft and 110.0 sqin)
1sqft	=	0.092903 m^2

1.12 A useful rule of thumb to convert m^2 to sqft is simply to add a zero.

Report Structure

1.13 This report examines the viability of development across South Lakeland outside the National Parks and follows the following format:

Chapter 2 We have set out the reasons for, and approach to, viability testing, including a short review of the requirements of the CIL Regulations and NPPF.

Chapter 3 We have set out the methodology used.

Chapter 4 An assessment of the housing market, including market and affordable housing with the purpose of establishing the worth of different types of housing (size and tenure) in different areas.

Chapter 5 An assessment of the non-residential markets with the purpose of establishing the worth of different types of housing (size and tenure) in different areas.

Chapter 6 An assessment of the costs of 'development' land to be used when assessing viability.

Chapter 7 We have set out the cost and general development assumptions to be used in the development appraisals.

Chapter 8 We have summarised the various policy requirements and constraints that influence the type of development that come forward.

Chapter 9 We have set out the range of modelled sites used for the financial development appraisals.

Chapter 10 The results of the development appraisals for residential development sites.

Chapter 11 The results of the development appraisals for non-residential development sites.

Chapter 12 We have set out our conclusions and recommendations.

1.14 This report forms one of the pieces of evidence that will be used to assess whether the DPD is deliverable. In due course the Council will weigh up its own priorities in the context of the NPPF and other relevant matters such as the CIL Regulations and CIL Guidance and 'strike the balance' between delivering the Land Allocations DPD, funding infrastructure and delivering its overall priorities.

Next Steps

1.15 This report has been prepared following a consultation on the methodology and key inputs. The information in this report is an important element of the evidence for Land Allocations DPD examination, but is only one part of the evidence; the wider context and other existing evidence must also be considered.

2. Viability Testing

2.1 Viability testing is an important part of the Development Plan making process. The requirement to assess viability forms part of the National Planning Policy Framework[2] (NPPF), is part of the Strategic Housing Land Availability Assessment (SHLAA) process, and is a requirement of the CIL Regulations[3]. In each case the requirement is slightly different but all have much in common.

NPPF Viability Testing

2.2 The NPPF introduced a requirement to assess the viability of the delivery of Local Plan and the impact on development of policies contained within it. The NPPF includes the following requirements:

Ensuring viability and deliverability

173. Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

174. Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.

2.3 The duty to test in the NPPF is a 'broad brush' one saying 'plans should be deliverable'. It is not a requirement that every site should be able to bear all of the local authority's requirements – indeed there will be some sites that are unviable even with no requirements imposed on them by the local authority. The typical site in the local authority should be able to bear whatever target or requirement is set and the Council should be able show, with a reasonable degree of confidence, that the Development Plan is deliverable.

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[2] The NPPF was published on 27th March 2012 and the policies within it apply with immediate effect.

[3] SI 2010 No. 948. COMMUNITY INFRASTRUCTURE LEVY, ENGLAND AND WALES, The Community Infrastructure Levy Regulations 2010 *Made 23rd March 2010, Coming into force 6th April 2010* and update SI 2011 No. 987. COMMUNITY INFRASTRUCTURE LEVY, ENGLAND AND WALES, The Community Infrastructure Levy (Amendment) Regulations 2011 *Made 28th March 2011, Coming into force 6th April 2011*

2.4 Some sites within the area will not be viable. In these cases developers have scope to make specific submissions at the planning applications stage; similarly some sites will be able to bear considerably more than the policy requirements.

2.5 Of particular importance to this project is paragraph 47 of the NPPF:

47. To boost significantly the supply of housing, local planning authorities should:

- *use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies set out in this Framework, including identifying key sites which are critical to the delivery of the housing strategy over the plan period;*

- *identify and update annually a supply of specific deliverable[11] sites sufficient to provide five years' worth of housing against their housing requirements with an additional buffer of 5% (moved forward from later in the plan period) to ensure choice and competition in the market for land. Where there has been a record of persistent under delivery of housing, local planning authorities should increase the buffer to 20% (moved forward from later in the plan period) to provide a realistic prospect of achieving the planned supply and to ensure choice and competition in the market for land;*

- *identify a supply of specific, developable[12] sites or broad locations for growth, for years 6-10 and, where possible, for years 11-15;*

2.6 Some clarity as to what is meant by deliverable and developable is provided by footnotes 11 and 12 of the NPPF (with our emphasis):

11 To be considered deliverable, sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and <u>in particular that development of the site is viable</u>. Sites with planning permission should be considered deliverable until permission expires, unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, there is no longer a demand for the type of units or sites have long term phasing plans.

12 To be considered developable, sites should be in a suitable location for housing development and there should be a reasonable prospect that the site is available and <u>could be viably developed at the point envisaged</u>.

2.7 This study will specifically examine the development viability of the site types in the DPD and the viability of the key sites to be included that are thought to have abnormal development costs.

2.8 Where sites are unviable and vital to the delivery of the Plan the Council will need to consider whether the site should remain in the Plan and if so how it can facilitate that development. Further the Council will need to decide what it, as a Local Planning Authority and District Council, can do to create the environment to encourage development to come forward. It should be noted that in many cases the Council, as a Planning Authority, cannot make development viable and it is not a developer. It does have a range of tools and mechanisms that it can use to make the development environment as conducive as possible – within the context of the Core Strategy.

2.9 The purpose of this study is to make an assessment of the viability of the Land Allocations DPD in order to make an assessment of its deliverability.

CIL Economic Viability Assessment

2.10 Whilst this study is not specifically about setting CIL, it is not possible to consider the deliverability of the DPD without considering how the infrastructure required to support the new development planned will be funded. It is inevitable that CIL will have a role in this. The viability testing under the CIL is different to the NPPF. CIL, once introduced, is mandatory on all developments (with a very few exceptions) that fall within the categories and areas where the levy applies, unlike other policy requirements to provide affordable housing or to build to a particular environmental standard over which there can be negotiations. This means that CIL must not prejudice the viability of most sites.

2.11 In March 2010 CLG published *Community Infrastructure Levy Guidance, Charge setting and charging schedule procedures* to support the CIL Regulations. These have now been replaced by Community Infrastructure Levy, Guidance (December 2012). This Guidance requires each Authority to publish a 'Charging Schedule'. The Charging Schedule will sit within the Local Development Framework; however, it will not form part of the statutory Development Plan nor will it require inclusion within a Local Development Scheme.

2.12 Regulation 14 of the CIL Regulations says:

'councils must aim to strike what appears to the charging authority to be an appropriate balance between (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability'.

2.13 Viability testing in the context of CIL will assess the '*effects*' on development viability of the imposition of CIL – it should be noted that whilst the financial impact of introducing CIL is an important factor, the provision of infrastructure (or lack of it) will also have an impact on the ability of the Council to meet its objectives through development and deliver its Development Plan. The plan may not be deliverable in the absence of CIL.

2.14 Regulation 13 of the CIL Regulations says:

A charging authority may set differential rates - (a) for different zones in which development would be situated; (b) by reference to different intended uses of development…

2.15 The CIL Guidance makes it quite clear differential rates of CIL can be set by different areas and for different uses but these differential rates can only be set with regard to viability (CIL Guidance, paragraphs 34, 35, 36 and 37).

2.16 On preparing the evidence base on economic viability the CIL Guidance says:

25. The legislation (section 211 (7A)) requires a charging authority to use 'appropriate available evidence' to inform their draft charging schedule. It is recognised that the available data is unlikely to be fully comprehensive or exhaustive. Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole.

2.17 This study has drawn on the existing available evidence, including the Viability Impact Studies, the SHLAA and site specific appraisals.

26. A charging authority should draw on existing data wherever it is available. Charging authorities may consider a range of data, including:

- *values of land in both existing and planned uses; and*
- *property prices (e.g. house price indices and rateable values for commercial property).*

27. In addition, a charging authority should sample directly an appropriate range of types of sites across its area in order to supplement existing data, subject to receiving the necessary support from local developers. The focus should be in particular on strategic sites on which the relevant Plan relies and those sites (such as brownfield sites) where the impact of the levy on economic viability is likely to be most significant. In most instances where a charging authority is proposing to set differential rates, they will want to undertake more fine-grained sampling (of a higher percentage of total sites), to identify a few data points to use in estimating the boundaries of particular zones, or different categories of intended use. The sampling should reflect a selection of the different types of sites included in the relevant Plan, and should be consistent with viability assessment undertaken as part of plan-making.

2.18 In due course this study will form one part of the evidence that the Council will use to assess the deliverability of the DPD and the impact of its policies. The Council will also consider other 'existing available evidence', the comments of stakeholders and wider priorities. The NPPF and the Harman Guidance as referred to below recommends that the development and consideration of a CIL rate should be undertaken as part of the same. In this case it was decided not to consider CIL in detail in this report due to the short timeframe available. In due course this report will form the basis of the evidence as required by the CIL Regulations.

Relevant Guidance

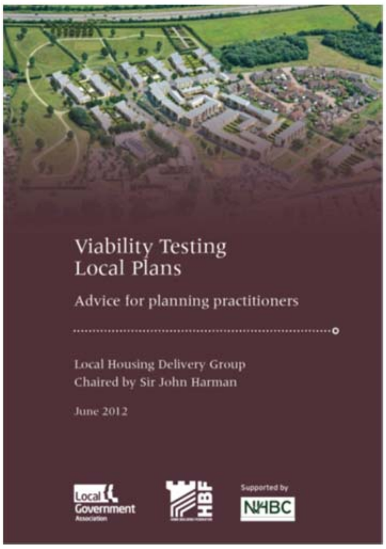
2.19 There are several sources of guidance and appeal decisions[4] that support the methodology we have developed. The Homes and Communities Agency (HCA) good practice manual '*Investment and Planning Obligations: Responding to the Downturn*' (2009) has a definition of viability:

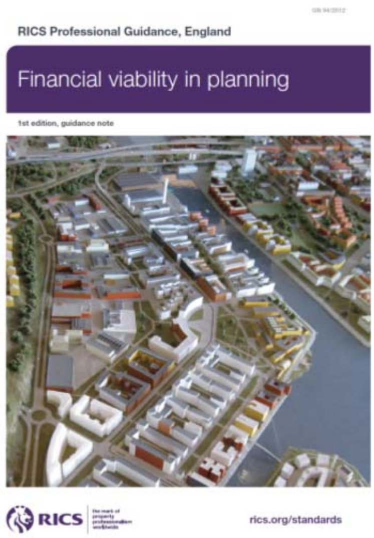
'a viable development will support a residual land value at level sufficiently above the site's existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner'.

[4] *Barnet: APP/Q5300/A/07/2043798/NWF, Bristol: APP/P0119/A/08/2069226, Beckenham: APP/G5180/A/08/2084559, Woodstock: APP/D3125/A/09/2104658,* Shinfield *APP/X0360/A/12/2179141*

2.20 The planning appeal decisions, and the HCA good practice publication suggest that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared with the existing use value, plus a premium.

2.21 There are two more recent sources of guidance; *Viability Testing in Local Plans – Advice for planning practitioners*. (LGA/HBF – Sir John Harman) June 2012[5] (known as the Harman Guidance) and *Financial viability in planning*, RICS guidance note, 1st edition (GN 94/2012) during August 2012 (known as the RICS Guidance). Additionally, the Planning Advisory Service (PAS)[6] also provide viability guidance and manuals for local authorities.





2.22 There is considerable common ground between the RICS and the Harman Guidance but unfortunately they are not consistent. The RICS Guidance is recommending against the 'current/alternative use value plus a margin' – which is the methodology recommended in the Harman Guidance.

One approach has been to exclusively adopt current use value (CUV) plus a margin or a variant of this, i.e. existing use value (EUV) plus a premium. The problem with this singular approach is that it does not reflect the workings of the market as land is not released at CUV or CUV plus a margin (EUV plus)…..

(*Financial viability in planning*, RICS guidance note, 1st edition (GN 94/2012) during August 2012)

[5] Viability Testing in Local Plans has been endorsed by the Local Government Association and forms the basis of advice given by the, CLG funded, Planning Advisory Service (PAS).

[6] PAS is funded directly by DCLG to provide consultancy and peer support, learning events and online resources to help local authorities understand and respond to planning reform. (Note: Some of the most recent advice has been co-authored by HDH).

2.23 The Harman Guidance advocates an approach based on Threshold Land Value. Viability Testing in Local Plans says:

Consideration of an appropriate ***Threshold Land Value*** *needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values (noting the exceptions below).

(Viability Testing in Local Plans – Advice for planning practitioners. (LGA/HBF – Sir John Harman) June 2012)

2.24 The RICS dismisses a Threshold Land Value approach as follows.

Threshold land value*. A term developed by the Homes and Communities Agency (HCA) being essentially a land value at or above that which it is assumed a landowner would be prepared to sell. It is not a recognised valuation definition or approach.*

2.25 Threshold Land Value may not be recognised by the RICS – however bearing in mind the RICS Guidance was published some time after the Harman Guidance, this is a surprising statement. On face value these statements are directly contradictory.

2.26 It is vital, in order to avoid later disputes and delays, that the approach taken in a study of the type proposed brings these two sources of guidance together. The methodology adopted is to compare the Residual Value generated by the viability appraisals for the modelled sites, with the existing use value (EUV) or an alternative use value (AUV) plus an appropriate uplift to incentivise a landowner to sell. The amount of the uplift over and above the existing use value is central to the assessment of viability. It must be set at a level to provide 'competitive returns'[7] to the landowner. To inform the judgement as to whether the uplift is set at the appropriate level we make reference to the market value of the land both with and without the benefit of planning.

2.27 This approach is in line with that recommended in The Harman Guidance (as endorsed by LGA, PAS and the London CIL Examiner) – but also broadly in line with the main thrust of the RICS Guidance of having reference to market value. It is relevant to note that the Harman methodology was endorsed by the Planning Inspector who approved the London

[7] As required by 173 of the NPPF

Mayoral CIL Charging Schedule in January 2012[8]. In his report, the London Inspector dismissed the theory that using historical market value (i.e. as proposed by the RICS) to assess the value of land was a more appropriate methodology than using EUV plus a margin.

Limitations of viability testing in the context of CIL and the NPPF

2.28 The high level and broad brush viability testing that is appropriate to be used to assess the cumulative impact of policies (NPPF 173 and 174) and to set CIL (CIL Regulation 14) does have limitations. The assessment of viability is a largely quantitative process based on financial appraisals – there are however types of development where viability is not at the forefront of the developer's mind and they will proceed even if a 'loss' is shown in a conventional appraisal. By way of example, an individual may want to fulfil a dream of building a house and may spend more that the finished home is actually worth, a community may extend a village hall even through the value of the facility in financial terms is not significantly enhanced or the end user of an industrial or logistics building may build a new factory or depot that will improve its operational efficiency even if, as a property development, the resulting building may not seem to be viable.

2.29 This sets the Council a challenge when considering its proposals. It needs to determine whether or not introducing policies or CIL that impact on a development type that may appear only to be marginally viable have any material impact on the rates of development or will the developments proceed anyway. It is clear, in SLDC, that the non-residential development coming forward at present (such as GSK and Tritech) is driven for operational reasons rather than property development.

Viability Testing – Outline Methodology

2.30 There is no statutory guidance on how to actually go about viability testing and assess when a site is or is not viable. We have therefore followed the Harman Guidance and the RICS Guidance as set out above. The availability and cost of land are matters at the core of viability for any property development. The format of the typical valuation, which has been standard for as long as land has been traded for development, is:

[8] Paragraphs 7 to 9 of REPORT ON THE EXAMINATION OF THE DRAFT MAYORAL COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE by Keith Holland BA (Hons) DipTP MRTPI ARICS an Examiner appointed by the Mayor Date: 27th January 2012

Gross Development Value
(The combined value of the complete development)

LESS

Cost of creating the asset, including a profit margin
(Construction + fees + finance charges)

=

RESIDUAL VALUE

2.31 The result of the calculation indicates a land value, the Residual Value, which is the top limit of what a bidder could offer for a site and still make a satisfactory profit margin. It is important to note that in this study we are not trying to exactly mirror any particular developer's business model – rather we are making a broad assessment of viability in the context of Plan making and the requirements of the NPPF.

2.32 As evidenced through the consultation process the 'likely land value' is a difficult topic since a landowner is unlikely to be entirely frank about the price that would be acceptable, always seeking a higher one. This is one of the areas where an informed assumption has to be made about the 'uplift': the margin above the 'existing use value' which would make the landowner sell.

2.33 There is no specific guidance on how to test the viability in the CIL Regulations or Guidance. Paragraph 173 of the NPPF says: '…… *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……*' This seems quite straightforward – although '*competitive returns'* is not defined.

The meaning of 'competitive return'

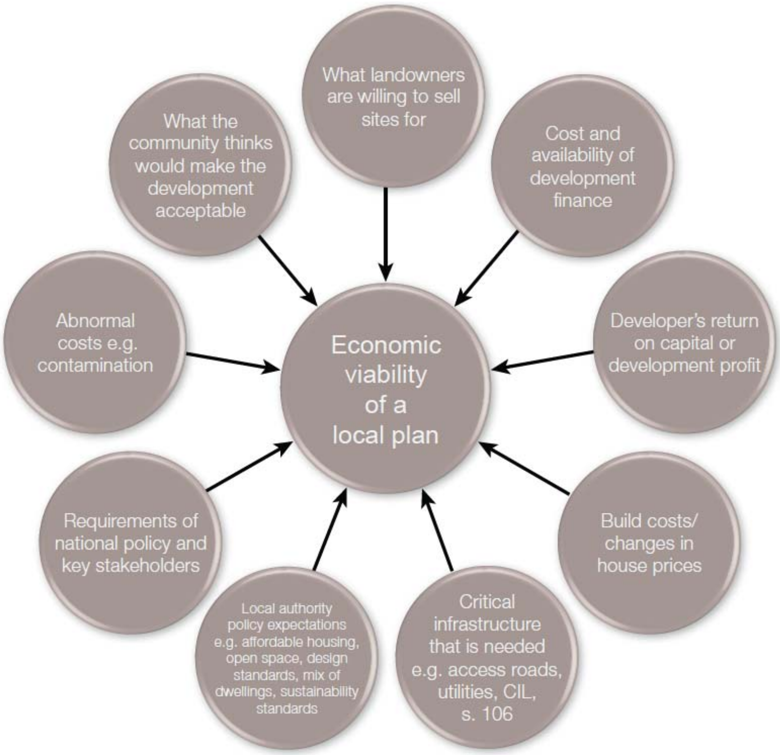
2.34 We have given considerable thought as to the meaning of '*competitive returns*' as the test of viability will depend, in part, on this. The meaning of '*competitive return*' is at the core of a viability assessment. The RICS Guidance includes the following definition:

Competitive returns - A term used in paragraph 173 of the NPPF and applied to 'a willing land owner and willing developer to enable development to be deliverable'. A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. 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. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project.

2.35 Whilst this is useful it does not provide guidance as to the size of that return. To date there has been much discussion within the industry and amongst planners as to what may and may not be a competitive return, as yet the term has not been given a firm definition through the appeal, planning examination or legal processes. The amount of an appropriate competitive return was the only area where there was not a consensus during the consultation process. It is important to stress that this lack of consensus was not only between the Council and the development industry and land owners but that there was little consensus amongst the development industry either.

2.36 Competitive return was considered at the January 2013 appeal APP/X0360/A/12/2179141 (Land at The Manor, Shinfield, Reading RG2 9BX). We have discussed this further in Chapter 6 below.

2.37 It should be noted that this study is about the economics of development. Viability brings in a wider range than just financial factors. The following graphic is taken from the Harman Guidance and illustrates the some of the not financial as well as financial factors that contribute the assessment process. Viability is an important factor in the plan making process but it is one of many factors.



2.38 The above methodology and in particular the differences between the Harman Guidance and the RICS Guidance were presented and discussed through the consultation process. There was a universal agreement that it was appropriate to follow the Harman Guidance. Having said this, at the end of the process it was suggested that the modelling approach was not appropriate, and a more 'practical' approach should be taken (although no specific alternative 'practical' approach was suggested).

Existing Available Evidence

2.39 The NPPF, the CIL Regulations and CIL Guidance are clear that the assessment of the potential impact of CIL should, wherever possible, be based on existing available evidence rather than new evidence. We have reviewed the evidence that is available from the Council. This falls into three broad types:

2.40 The first is that which has been prepared by the Council to inform its Local Development Framework (LDF) and in particular the Core Strategy. Viability testing did not form part of the SHLAA[9] process, however in 2009 the Council commissioned NPS to produce a Viability Impact Study that assessed the impact of Affordable Housing and Local Occupancy restrictions on development viability.

2.41 Secondly, the Council holds a substantial amount of evidence in the form of development appraisals that have been submitted by developers in connection with specific developments – most often to support negotiations around the provision of affordable housing or s106 contributions.

2.42 Our approach has been to draw on this existing evidence and to consolidate it so that it can then be used as a sound base for considering the deliverability of the DPD.

2.43 Thirdly, the Council also holds records of past planning consents with details of the affordable housing included in projects and the contributions made under the s106 regime. This is set out in **Appendix 9**. This forms practical and real evidence of what has been delivered historically. We have considered the Council's policies for developer contributions (including affordable housing) and the amounts that have actually been collected from developers.

Stakeholder Engagement

2.44 The Harman Guidance puts considerable emphasis on stakeholder engagement – particularly with members of the development industry. From our experience examiners and inspectors put considerable weight on the comments of the development industry. In preparing this evidence document we have sought to engage with practitioners involved in the development industry.

2.45 As set out in Chapter 1 three events have been held:

a. **7th February 2013** – Presentation and workshops with promoters of the key development sites within the District and the representatives of the main developers, site owners and housing providers. The meeting was used to introduce the

[9] SLDC SHLAA, Roger Tym and Partners. March 2009

development industry to the NPPF and CIL, to test the assumptions used in the report, and to put the report in context. The event was divided into three parts.

i. An introduction to viability testing in the context of the CIL regulation 14 and paragraph 173 of the NPPF.

ii. Viability Assumptions. The methodology and main assumptions for the viability assessments were set out including development values, development costs, land prices, developers' and landowners returns'.

iii. Workshops. The consultees divided into groups, each lead by a planning officer, and talked through the main points. The feedback from these sessions were carefully recorded.

A lively, wide ranging and informative discussion took place. The comments of the consultees are reflected through this report and the assumptions have been adjusted where appropriate. The comments were wide ranging and there was not agreement on all points although there was a broad consensus on most matters. Where there was disagreement we have made a judgement and set out why we have made the assumptions we have used.

Following the consultation event on the 7th February, the main assumptions were circulated to the consultees. The consultees were invited to make written representations. It was stressed that that the comments needed to be made in the context of the Harman Guidance and to be specific. Whilst general observations about the use of viability testing or the place and or fairness of CIL would be interesting; at this stage (the preparation of the viability evidence), specific observations – backed up with evidence were needed. Where specific representations were made we have re-considered the assumptions made.

b. **22nd February 2013** – Presentation and discussion with all those with sites included in the DPD including landowners, developers and other stakeholders. The meeting was used to set out the changes that had been made to the assumptions in light of the comments received at and following the first meeting.

c. **11th March 2013** – Discussion with a small core group of agents and developers to agree common ground over the areas of difference. The meeting was used to review the main findings and discuss the meaning of 'competitive return' in more detail.

It was agreed that the methodology and the main assumptions were appropriate (although a number of different and somewhat contradictory submissions were made).

There was one significant area of disagreement and that was about the viability threshold – i.e. the amount which the Residual Value must exceed for a site to be judged viable. A range of alternative approaches were suggested, by us, by the development industry and by landowners and their representatives. The Council has worked hard to get a consensus however this has not been possible, not only is there a difference between Council and some stakeholders but there are a number of different (and un-reconcilable) views amongst stakeholders.

2.46 Additionally the Council provided the presentation and workshop materials to the Housing Advisory Group at their meeting on 12th February. This is a group of public and private sector housing providers, chaired by the Housing and Planning Portfolio holder that meets regularly. The members were invited to make representations. It was felt appropriate to include CIL in the consultation process due to the very close relationship between CIL and overall viability.

2.47 The consultation process was compressed and conducted over a relatively short period – with only limited notice being given. This was inevitable due to the general timeframe relating to the Land Allocations DPD examination. The Council acknowledges that this was not ideal – however based on the strong turnout and level of engagement, are confident that the consultation process has captured the views of the key stakeholders operating in the area.

2.48 **Appendix 1** includes a list of those consulted and **Appendix 2** includes the presentations from the consultation events.

3. Viability Methodology

Outline Methodology

3.1 The assessment of viability as required under the NPPF is not done through a calculation or a formula. The NPPF requires that *'the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened*[10]' and whether '*the cumulative impact of these standards and policies should not put implementation of the plan at serious risk*[11]'.

3.2 This piece of work is not a SHLAA, but it is, in part, filling a gap from the SHLAA. It is therefore useful to consider the SHLAA Guidance that says:

40. A site is considered achievable for development where there is a reasonable prospect that housing will be developed on the site at a particular point in time. This is essentially a judgement about the economic viability of a site, and the capacity of the developer to complete and sell the housing over a certain period. It will be affected by:

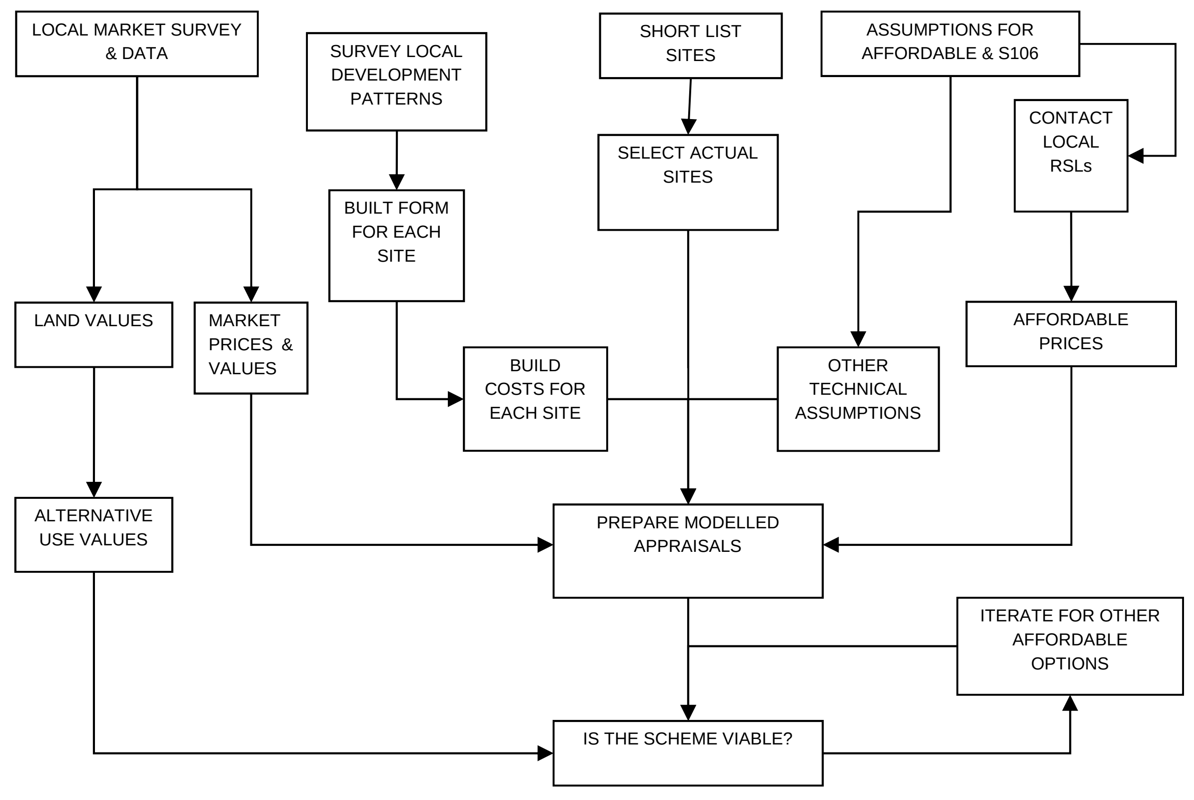
- ***market factors** – such as adjacent uses, economic viability of existing, proposed and alternative uses in terms of land values, attractiveness of the locality, level of potential market demand and projected rate of sales (particularly important for larger sites);*
- ***cost factors** – including site preparation costs relating to any physical constraints, any exceptional works necessary, relevant planning standards or obligations, prospect of funding or investment to address identified constraints or assist development; and*
- ***delivery factors** – including the developer's own phasing, the realistic build-out rates on larger sites (including likely earliest and latest start and completion dates), whether there is a single developer or several developers offering different housing products, and the size and capacity of the developer.*

41. There are a number of residual valuation models available to help determine whether housing is an economically viable prospect for a particular site. In addition, the views of housebuilders and local property agents for example will also be useful where a more scientific approach is not considered necessary.

3.3 The basic viability methodology is summarised in Figure 3.1 below. It involves preparing financial development appraisals for a representative range of sites and for a number key sites that are perceived to have abnormal development costs and using these to assess whether sites are viable. Details of the site modelling is set out in Chapter 9 and the specific sites are set out in **Appendix 3**. The sites were modelled based on discussions with Council officers, the existing available evidence supplied to us by the Council, and on our own experience of development. This process ensures that the appraisals are representative of typical development.

[10] NPPF Paragraph 173
[11] NPPF Paragraph 174

Figure 3.1 Viability methodology



Source: HDH 2013

3.4 The appraisals are based on adopted Core Strategy policy requirements and for appropriate sensitivity testing of a range of scenarios including different levels of affordable housing provision and different development requirements such as building to a higher Code for Sustainable Homes, level was carried out.

3.5 We surveyed the local housing and commercial markets, in order to obtain a picture of sales values. We also assessed land values to calibrate the appraisals and to assess alternative use values. Alongside this we considered local development patterns, in order to arrive at appropriate built form assumptions for those sites where information from a current planning permission or application was not available. These in turn informed the appropriate build cost figures. A number of other technical assumptions were required before appraisals could be produced. The appraisal results were in the form of £/ha 'residual' land values, showing the maximum value a developer could pay for the site and still return a target profit level.

3.6 The residual value was compared to the alternative use value for each site. Only if the residual value exceeded the alternative figure, and by a satisfactory margin, could the scheme be judged to be viable.

3.7 We have used a bespoke viability testing model designed and developed by us specifically for area wide viability testing as required by the NPPF and CIL Regulation 14[12]. The purpose of the viability model and testing is not to exactly mirror any particular business model used by those companies, organisations and people involved in property development. The purpose is to capture the generality and to provide high level advice to assist the Council in assessing the deliverability of the DPD.The appraisals are based on adopted Core Strategy policy requirements and for appropriate sensitivity testing of a range of scenarios including different levels of affordable housing provision and different development requirements such as building to a higher Code for Sustainable Homes, level was carried out.

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[12] This Viability Model has is used as the basis for the Planning Advisory Service (PAS) viability Workshops.
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4. Residential Property Market

4.1 This chapter sets out an assessment of the housing market, providing the basis for the assumptions on house prices to be used in the financial appraisals for the sites tested in the study. We are concerned not just with the prices but the differences across different areas.

4.2 Although development schemes do have similarities, every scheme is unique to some degree, even schemes on neighbouring sites. Market conditions will broadly reflect a combination of national economic circumstances, and local supply and demand factors, however, even within a town there will be particular localities, and ultimately site specific factors, that generate different values and costs.

The Residential Market

4.3 The housing market across the SLDC area reflects national trends, but there are local factors that underpin the market including:

i. A close proximity to the tourist 'hot-spots' of Lake District and Yorkshire Dales National Parks.
ii. Excellent transport links in the east of the District with fast, regular trains to London and Scotland and access to the M6 and conversely, relative remoteness and less good transport links to the west of the District.
iii. Many attractive settlements in a range of sizes containing buildings of character and heritage.

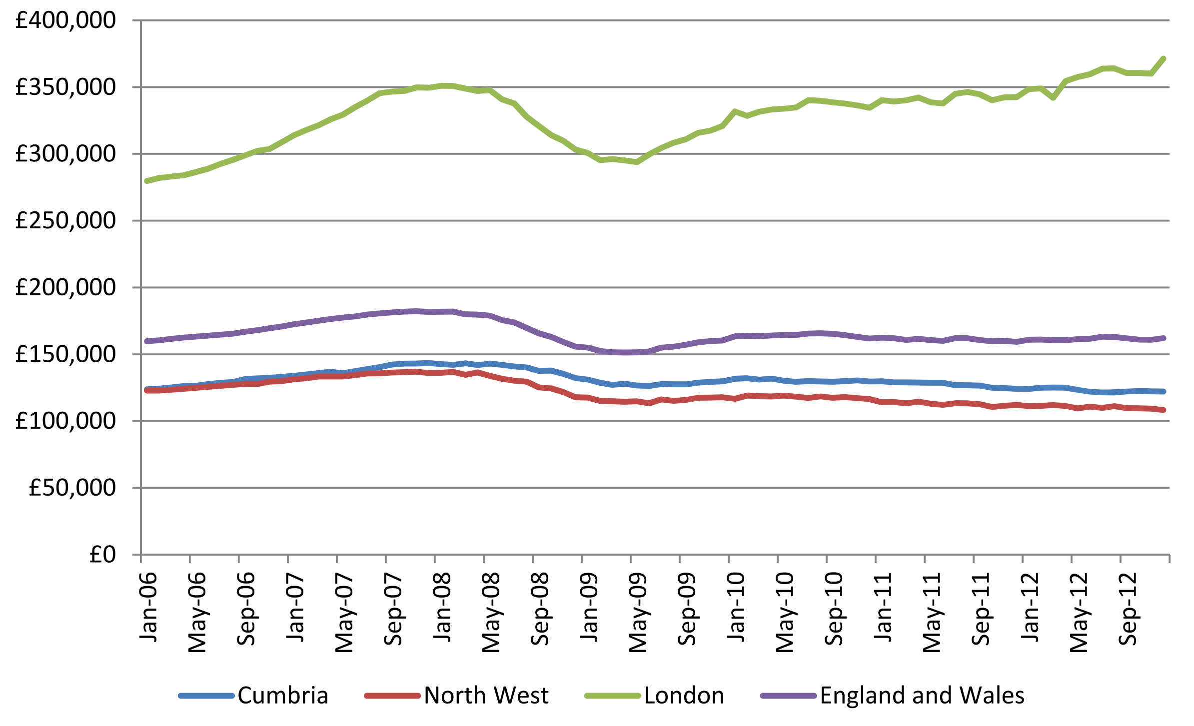
SLDC's Relationship to the UK Housing Market

4.4 The current direction and state of the housing market is unclear, and the future is uncertain. The housing market peaked late in 2007 (see the following graph) and then fell considerably in the 2007/2008 recession during what became known as the 'Credit Crunch'. Up to the peak of the market, the long term rise in house prices had, as least in part, been enabled by the ready availability of credit to home buyers. Prior to the increase in prices, mortgages were largely funded by the banks and building societies through deposits taken from savers. During a process that became common in the 1990s, but took off in the early part of the 21st Century, many financial institutions changed their business model whereby, rather than lending money to mortgagees that they had collected through deposits, they entered into complex financial instruments and engineering through which, amongst other things, they borrowed money in the international markets, to then lend on at a margin or profit. They also 'sold' portfolios of mortgages that they had granted. These portfolios also became the basis of complex financial instruments (derivatives etc).

4.5 During 2007 and 2008, it became clear that some financial institutions were unsustainable, as the flow of money for them to borrow was not certain. As a result, several failed and had to be rescued by governments. This was an international problem that affected countries across the world – but most particularly in North America and Europe. The first of the major banks to fail was Lehman Brothers in America. In the UK the high profile institutions that were rescued included Royal Bank of Scotland, HBoS, Northern Rock and Bradford and Bingley. The ramifications of the recession were an immediate and significant fall in house prices, and a complete reassessment of mortgage lending with financial organisations becoming adverse to taking risks, lending only to borrowers who had the least risk of default and those with large deposits.

4.6 There are various commentators talking about a recovery in house prices, but generally there is limited evidence to support such a view outside the very discrete area of central London and the South East. The following figure shows that generally prices in Cumbria have seen a recovery since the bottom of the market in mid-2009. Whilst it is difficult to pick out any trend in this, it is appropriate to take a cautious view.

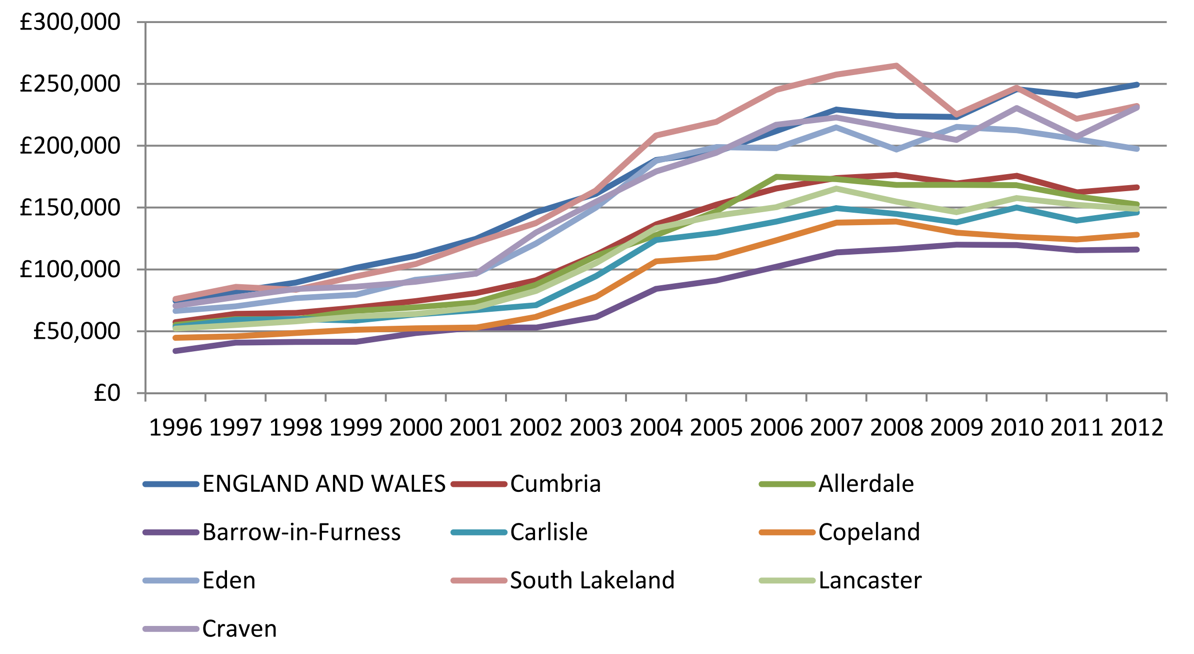
Figure 4.1 Average House Prices (£)



Source: Land Registry January 2013

4.7 As shown in the following figure, South Lakeland has a history of higher values than any of its neighbours – and England as a whole (it should be noted that these figures include the areas within the national parks). The SLDC area is an area with high levels of demand and is a much sought after place to live.

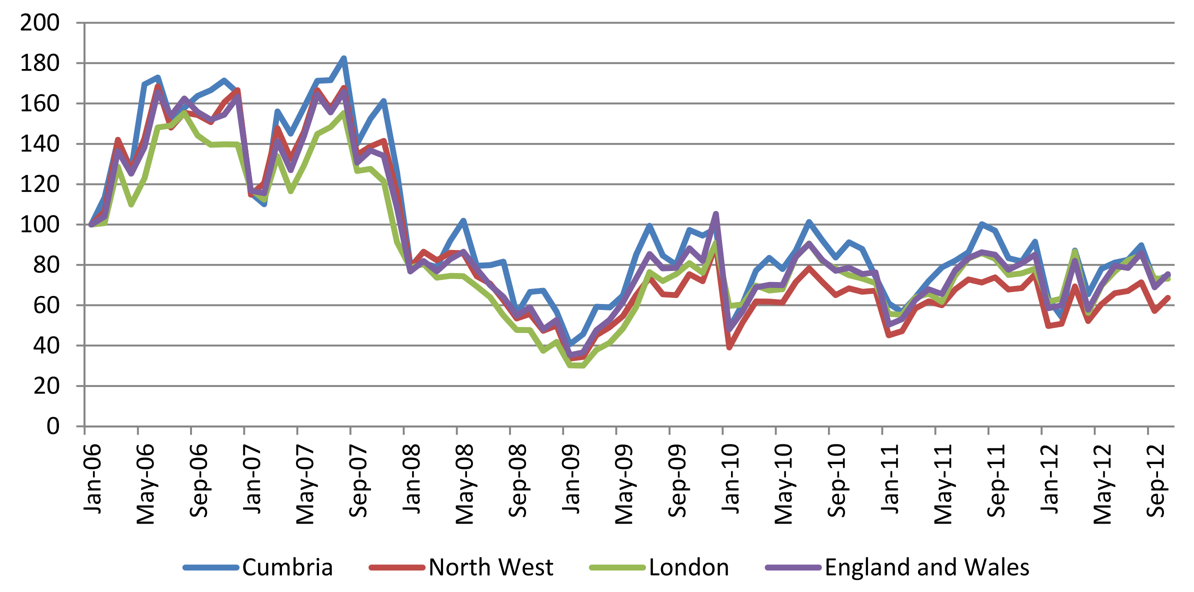
Figure 4.2 Average House Prices (£)



Source: CLG Live Table 581 March 2013

4.8 Contrary to the statistical evidence above, discussions with estate agents suggest that prices in most areas are now moving up and there is more confidence in the market with a return of first time buyers. It should be noted that the market remains very slow with the sales per month running well below those at the peak of the market:

Figure 4.3 Sales per month – Indexed to January 2006



Source: Land Registry January 2013

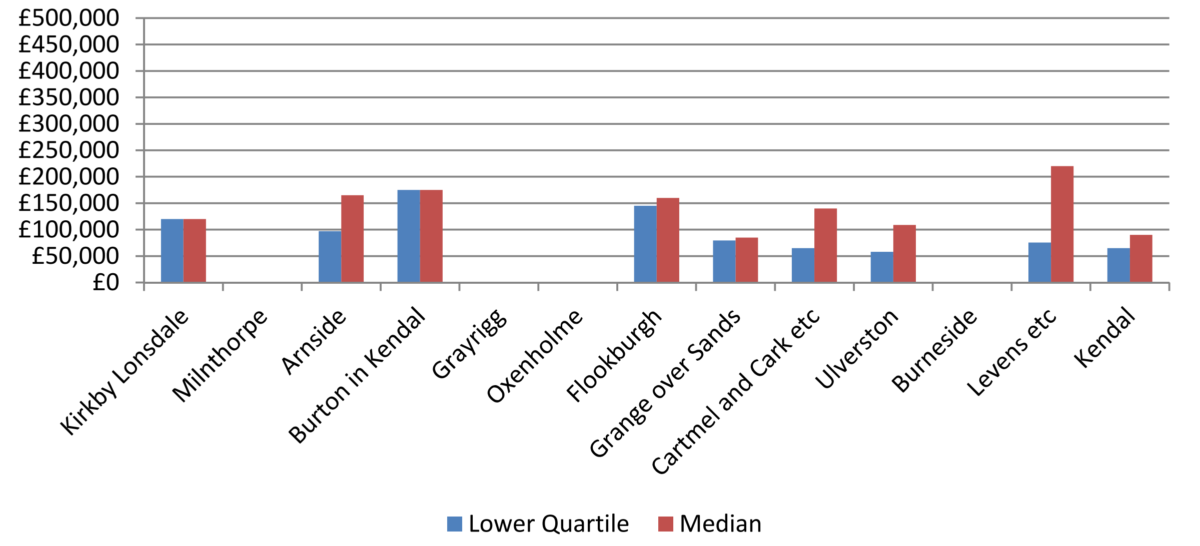
4.9 There is clearly uncertainty in the market, and it is not for this study to try to predict how the market may change in the coming years, and whether or not there will be a recovery in house prices. The troubles in the Euro-zone are continuing and there is no clear end to them in sight. This sets the Councils a particular challenge when it comes to setting a rate of CIL that will prevail for several years.

4.10 To assist the Councils to 'strike the balance' in an informed way, we have run two further sets of appraisals to show the effect of a 5% and 10% increase, and a 5% and 10% decrease in house prices.

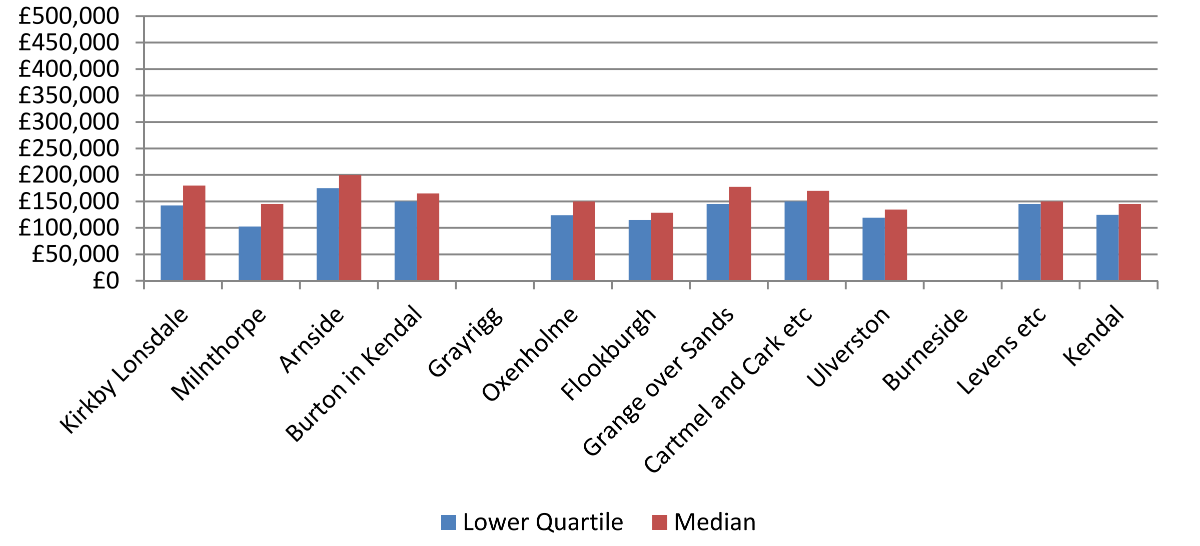
4.11 We carried out a survey of asking prices by house size by settlement. Through using online tools such as rightmove.co.uk, zoopla.co.uk and other resources we estimated the lower quartile and median asking prices for the main settlements. There is some variance across the District, with the west having lower prices.

Figure 4.4 Median Asking Prices by Main Settlement and Rural Area (£)

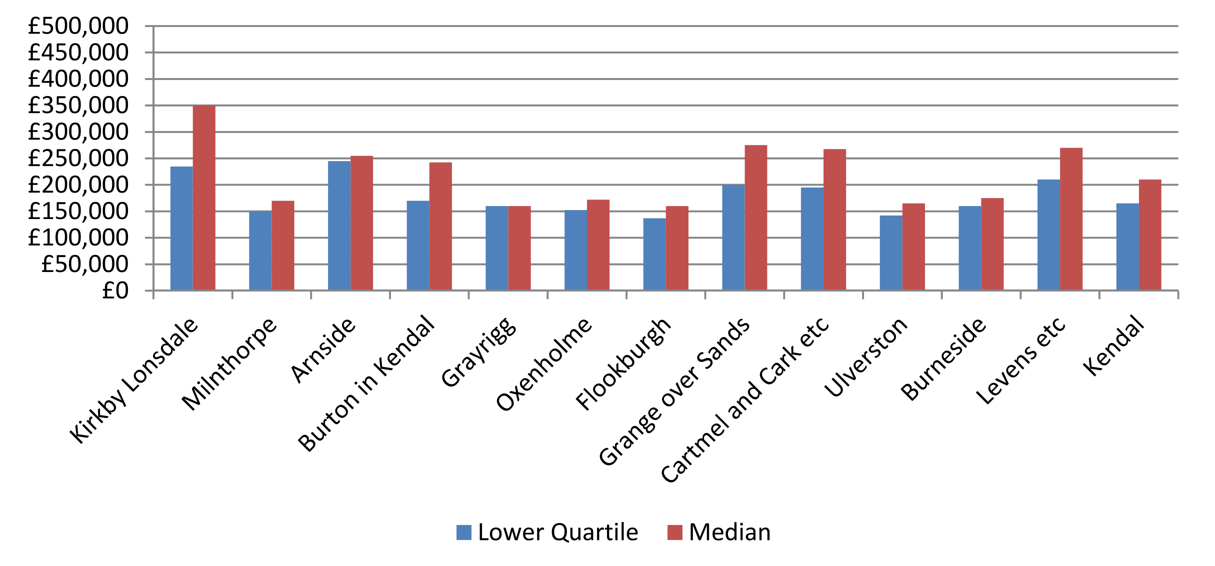
1 Beds



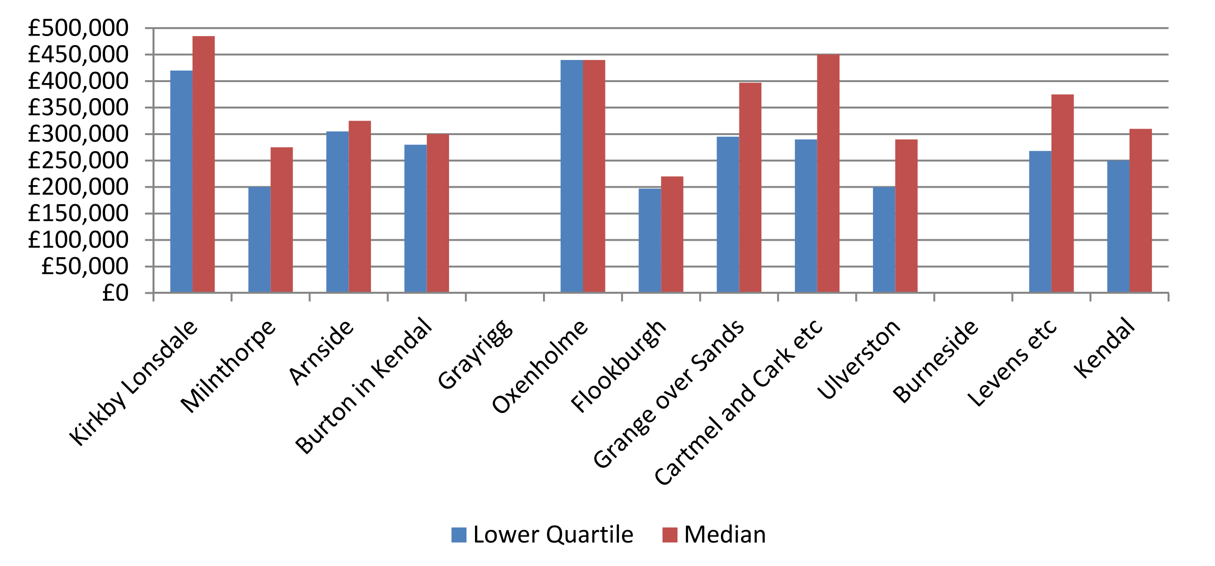
2 Beds



3 Beds



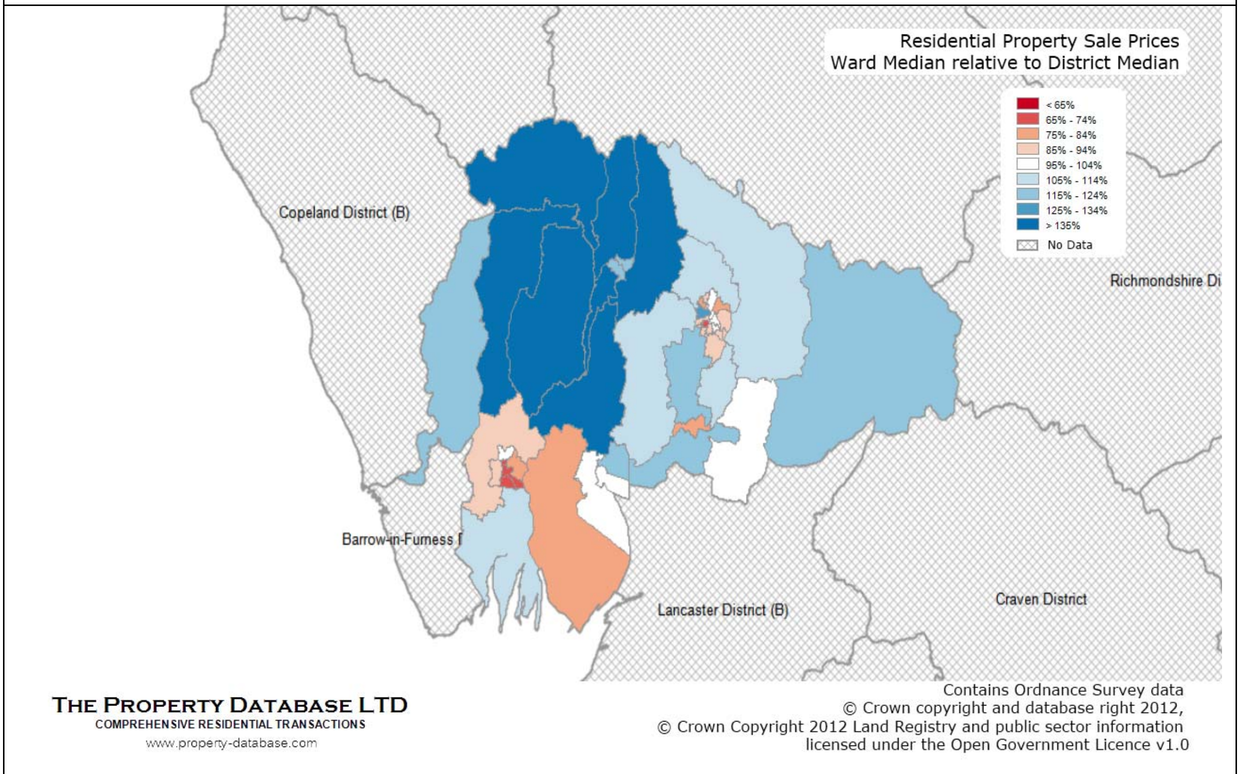
4 Plus Beds



Source: Rightmove.co.uk January 2013

4.12 The geographical difference in prices in illustrated in the following map showing the average price for semi-detached homes.

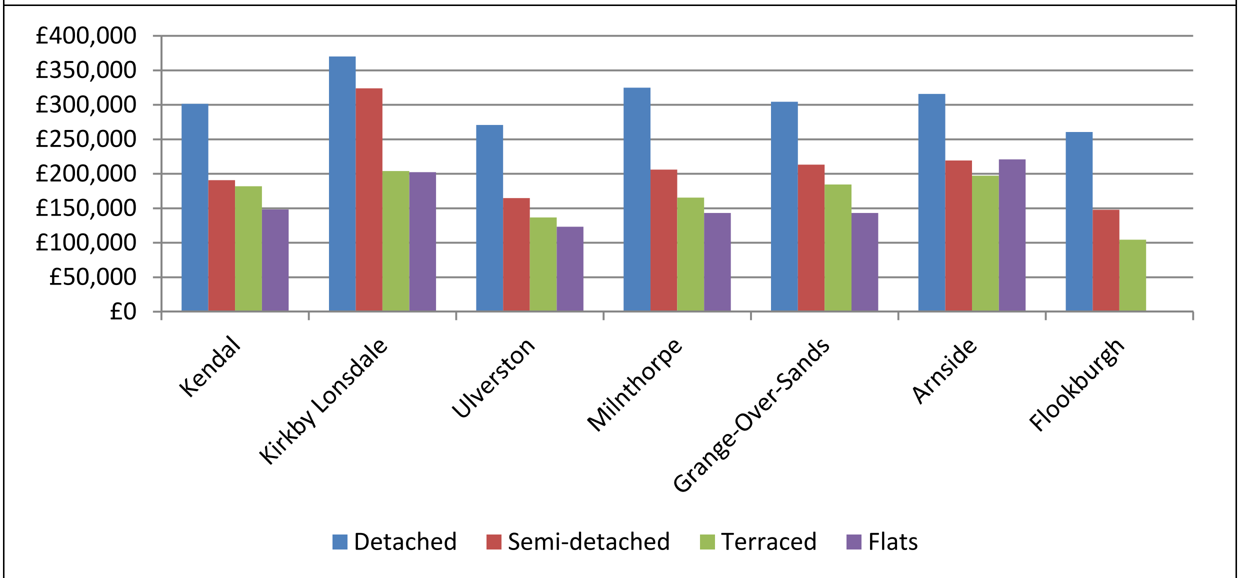
Map 4.1 Average Prices – Semi-detached



Source: Land Registry

4.13 A further source of price information is Zoopla.co.uk:

Figure 4.5 Avg. £ paid over the last 12 months



Source: Zoopla.co.uk

New Build Sales Prices.

4.14 The above price information is interesting but this part of this study is concerned with the viability of new build residential property so the key input for the appraisals are the prices of units on new developments. We conducted a survey of new homes for sale during January 2013. A list setting out details of relevant new developments in the area is provided below. We identified just 11 new homes for sale in the SLDC area. The information collected was not comprehensive as different developers and agents make different levels of information available and includes sites beyond the Council's area (due to the lack of currently available units within the area).

Table 4.1 New Build House Asking Prices

			Area		Price	Price per m^2	
Agent/developer	Address	Town	Flat	House		Flat	House
Carter Jonas	Riverside Apartments	Kendal	57.6		£180,000	£3,125	
Poole Townsend	7 School Mews, Lund terrace	Ulverston		72	£142,500		£1,979
Hackney and Leigh	Pengarth, Ashmount RD	Grange -o-Sands		200	£455,000		£2,272
Hackney and Leigh	Greengate Gardens	Levens			£425,000		
					£349,950		
Hackney and Leigh	Masters Grange	Kirkby Lonsdale			£399,950		
					£364,950		
					£349,950		
					£349,950		
Ambleside residential Dev Ltd	16 Blue Hill park	Ambleside			£355,000		
Cumberland Estate agents	Peggy nut croft	Shap			£169,950		
Ross Estate Agency	Folly Ct, Fallowfield Rd	Askam-in-Furness			£165,000		
Your Move	Wilkinson View	Backbarrow		72	£160,000		£2,222
H and L	1 Old Laundry Mews	Ingleton		100	£229,995		£2,300
			54.4		£132,500	£2,436	
			54.4		£132,500	£2,436	
			54.4		£129,950	£2,389	
Cobble Country	7 Red Gable	Shap			£125,000		
H and L	The Barn, 1 Mill Farm	Newby Bridge		131.27	£295,000		£2,247

Source: Market Survey January 2013. Note this table only shows values where £/m^2 were available

4.15 We have been provided with information on new-build house prices submitted to and agreed with the Council as part of the development control process. These are summarised as follows:

Kirkby Lonsdale £2,525/m^2 to £2,859/m^2

Broughton in Furness £2,015/m^2 to £2,647/m^2

Ulverston £1,577/m^2 to £2,254/m^2

4.16 Analysis of these and other schemes in the study area shows that asking prices for newbuild homes vary across the area ranging from about £2,000/m^2 for estate housing at Ulverston to over £3,000/m^2 in Kendal.

4.17 During the course of the research, we contacted agents to enquire about the price discounts and incentives available. In most cases the feedback was that the units were 'realistically priced'. When pressed, it appeared that the discounts and incentives offered equated to a 2% to 3% reduction of the asking price. It would be prudent to assume that prices achieved, net of incentives offered to buyers, are 3% less than the above asking prices.

4.18 We have compared these prices with those submitted by developers in appraisals submitted to the Council as part of the development control process and in connection with s106 negotiations and in other parts of the planning evidence base. These are summarised below:

Table 4.2 Residential prices from developer appraisals

	Type	**£/m2**
Kendal area	Large scheme of mixed 'estate' housing	2,152 to 2,367
Kirkby Lonsdale area	Small housing scheme featuring conversion of a range of barns within 3 miles of Kirkby Lonsdale	1,732 to 2,692
Ulverston area	Small housing scheme involving redevelopment of site of former restaurant in village within 3 miles of edge of Ulverston	1,800 to 2,500
Kendal area	Small housing scheme involving redevelopment of site of existing dwelling with large garden in village within 4 miles of edge of Kendal	2,400
Kendal area	Small housing scheme involving redevelopment of former nursery in village within 3 miles of edge of Kendal	2,383 to 2,761
Kendal area	Medium-sized housing scheme involving conversion of former pub with adjacent new build close to town centre	2,007 to 2,503

Source: Development appraisals

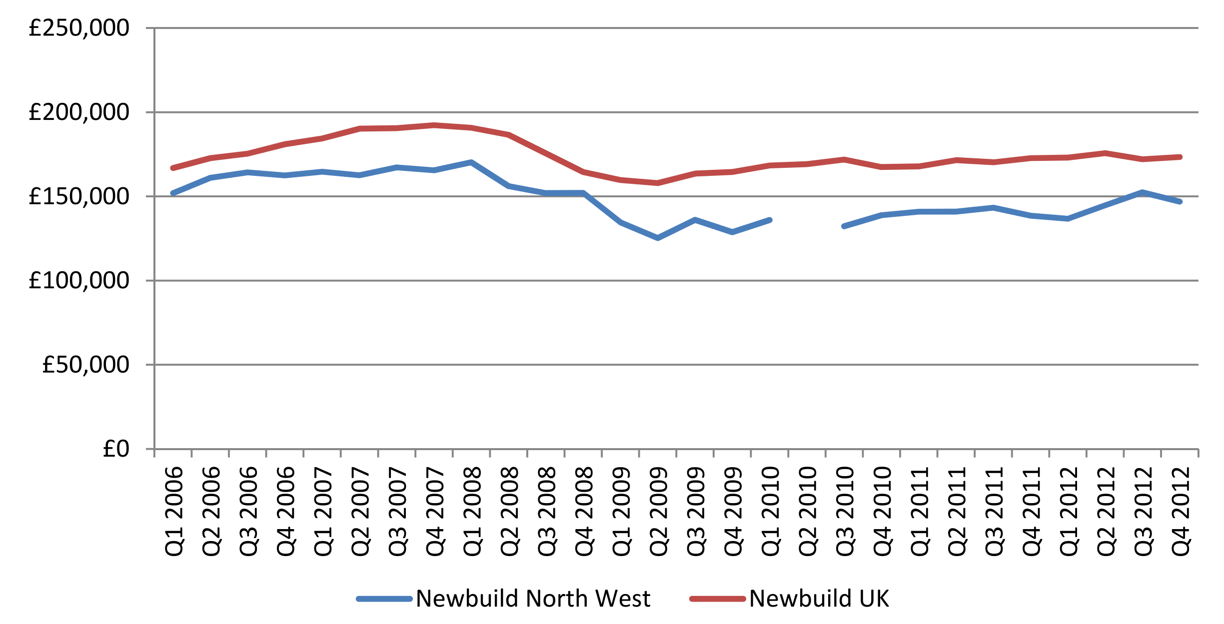
4.19 We have compared these values to those found by the Council's *Viability Impact Study* (NPS January 2009) that provided evidence to support the Core Strategy:

Table 4.3 Houses Prices used in 2009 Viability Impact Study (£/m²)					
	Kendal	Rural Kendal	Milnthorpe	Grange and Cartmel	Ulverston and Furness
Flat - 1 bed	£2,563	£2,854	£2,375	£2,750	£2,292
Flat - 2 bed	£2,412	£2,676	£2,221	£2,574	£2,147
House - 2 bed	£2,413	£2,667	£2,213	£2,573	£2,147
House - 3 bed	£2,522	£2,789	£2,322	£2,689	£2,244
House - 4 bed	£2,743	£3,019	£2,533	£2,914	£2,457

Source: Appendix 2 NPS Viability Impact Study 2009

4.20 The Nationwide Building Society publish regional data relating the price of new homes. This is shown in the following figure. It was suggested through the consultation process that house prices had fallen since 2009 however this is not the case. It can be seen that since 2009 there has been an increase in sale prices.

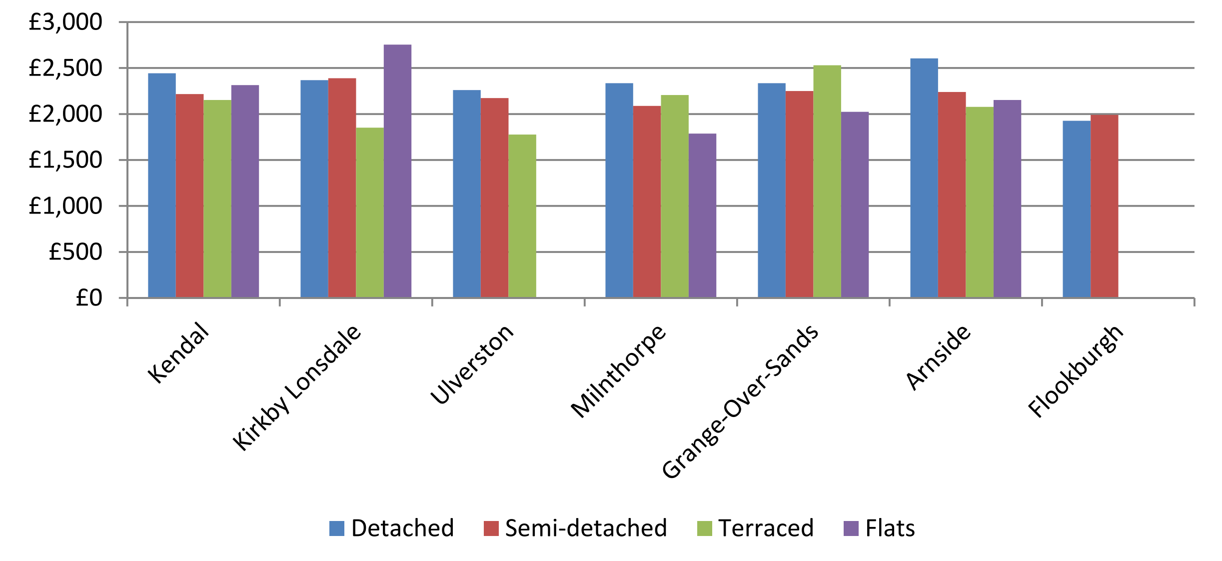
Figure 4.6 Average Newbuild House Prices



Source: Nationwide Building Society (Note – the gap in the graphs indicates a lack of data)

4.21 There are various other sources of price information. Zoopla.co.uk produces various price reports – although these should be used with some caution due the broad assumptions used in their calculation.

Figure 4.7 House prices £/m²



Source: Zoopla.co.uk (January 2013) – All sales, including affordable.

Price Assumptions for Financial Appraisals

4.22 It is necessary to form a view about the appropriate prices for the schemes to be appraised in the study. The preceding analysis does not reveal simple clear patterns with sharp boundaries.

4.23 Based on the current asking prices from active developments, and informed by the general pattern of all house prices across the study area, we have set the prices in the appraisals based on this data. It is important to note at this stage that this is a broad brush, high level study to test the Council's policy as required by the NPPF and to inform the setting of CIL as required by CIL Regulation 14. The values between new developments and within new developments will vary considerably.

4.24 It is clear that small schemes of large houses tend to have the highest values and have assumed that the smaller villages have a price premium. Based on the collected evidence we have used the prices set out in Chapter 9 in this high level study. This approach recognises the distinct difference between the top of the market and small developments, and the 'estate housing' that may be produced on a larger site.

4.25 It is necessary to consider whether the presence of affordable housing would have a discernible impact on sales prices. In fact, affordable housing will be present on many of the sites whose selling prices have informed our analysis. Our view is that, in any case, any impact can and should be minimised through an appropriate quality design solution.

Affordable Housing

4.26 The Council has a policy for the provision of affordable housing (the requirements are summarised in **Chapter 8**). In this study we have assumed that Affordable Rented housing is constructed by the site developer and then sold to a Registered Provider (RP) and that intermediate housing is 'sold' direct to the occupier. This is a simplification of reality as there are many ways in which affordable housing is delivered, including the transfer of free land to RPs for them to build on or the retention of the units by the schemes overall developer. There are three main types of affordable housing: Social Rent, Affordable Rent and Intermediate Housing Products for Sale. It should be noted that changes to the HCA funding regime mean that it is unlikely there will be on-going development for Social Rent in SLDC. We consider the values of each below:

Social Rent

4.27 The value of a rented property is strongly influenced by the passing rent – although factors such as the condition and demand for the units also have a strong impact. Social Rents are set at a local level through a national formula that smooths the differences between individual properties and ensures properties of a similar type pay a similar rent:

Table 4.6 Social Rent (£/month)

	1 Bedroom	2 Bedrooms	3+ Bedrooms
SLDC	£330.63	£367.34	£408.55

Source: The COntinuous REcording of Letting and Sales in Social Housing in England (CORE) January 2013

4.28 This study concerns only the value of newly built homes. In spite of the differences in rents there seems to be relatively little difference in the amounts paid by RPs for such units across the study area.

4.29 In the 2009 Viability Impact Assessment various assumptions were made about the value of affordable housing – the most conservative of which was that the value was about 50% of open market value[14]. This is a little below our expectation. Initially in this study we have assumed social rent has a value of 50% of Open Market Value (OMV). This is a simplification of the reality but appropriate in this high level study.

4.30 There was a broad agreement – but not universal agreement – amongst stakeholders at the event on 7th February that the value of social rent at 50% of OMV was a sound assumption.

[14] Values per m^2 are not given – the Council's IPATH formula was used.

However, in this study we have assumed that all affordable housing to rent is as Affordable Rent so have not pursued this further.

Affordable Rent

4.31 The Localism Act has introduced a new form of affordable tenure known as Flexible Tenancies. Under a Flexible Tenancy the rent can be an Affordable Rent, which is a rent of no more than 80% of the open market rent for that unit. One of the key aims of the Coalition Government's policy on affordable housing is to make the much reduced HCA budget go further. The affordable rent that is over and above the social rent will be used by Registered Providers (RPs) to raise capital funding through borrowing or securitisation. This can then be used to build more affordable units – the extra borrowing replacing the grant.

4.32 When the then Housing Minister (Grant Shapps), announced the introduction of Flexible Tenancies and Affordable Rents on the 12th December 2010 he said:

Housing associations will be able to let an Affordable Rent property (whether a converted 'void' or newbuild) at <u>up to 80 per cent</u> of market rent for an equivalent property for that size and location.

4.33 The hope and objective of affordable rent is that by charging higher rents for the affordable housing, developers would require less grant and subsidy and thus the development of affordable housing would effectively fund itself, the theory being that if the developer could charge a higher rent then it can borrow more money to finance the construction and development process.

Grant Funding

4.34 For many years, the HCA and Local Planning Authorities (LPAs) have aspired to ensure that affordable housing is delivered without grant. When LPAs have negotiated with developers during the planning process, about the number and type of affordable housing to be provided through s106 agreements and planning conditions, the initial basis of those discussions has usually been that the affordable units would be made available without any grant. The reality was rather different, with the developer either transferring the serviced land for affordable housing to an RP for no cost, or an RP purchasing the completed units from the developer with grant assistance from the HCA.

4.35 The amount of grant paid by the HCA was assessed project by project depending on a site's financial characteristics and has been steadily decreasing overall over recent years. Under the old funding regime, we understand that typically, RPs received grant of £40,000 to £45,000 per social rent unit and about £25,000 per shared ownership unit, although it should be noted that the actual amounts varied greatly.

4.36 The aim of affordable rents (new build and re-lets) is that the extra income can be used to borrow and thus to replace the grant. The RP will be able to service new borrowings to make up the gap in grant. Some grant will continue to be available based on high priority sites where there is still a funding gap after the higher affordable rent has been allowed for however as the amount is uncertain we have assumed no grant will be available in the future.

Development Economics of Affordable Rent

4.37 In the development of affordable housing for rent, the value of the units is the worth of the income that the completed let unit will produce. This is the amount an investor or another RP would pay for the completed unit. This will depend on the amount of the rent, the cost of managing the property (letting, voids, rent collection, repairs etc.) and other uses to which it may be able to be put to at some time in the future. If, for example, the unit could be sold on the open market in the future then a buyer may be willing to pay more to take into account the long term value (known by valuers as the reversion).

4.38 The HCA's *2011-15 Affordable* Homes *Programme – Framework* contains the 'rules' and guidance around Flexible Tenancies and Affordable Rents. It says:

> *3.24 There will be a presumption that new Affordable Rent properties which receive funding under the new programme* ***will be permanently available for letting****. Flexible tenancies have been introduced to meet the differing needs of prospective tenants – but the homes themselves are expected to be available to meet need over the long-term, and it is on that basis that funding will be made available. We recognise that circumstances may change over time and any future disposal of properties will require TSA consent in the usual way, including consultation with the relevant local authority.*

4.39 Based on this we know that the reversionary period is worth no more as the new property can only be used for Affordable Rent. This only applies to new properties and not relets.

4.40 What is the rental stream worth – either to the RP or to somebody else? There are two aspects to this.

i. How much additional borrowing the additional income from the Affordable Rent income will support.

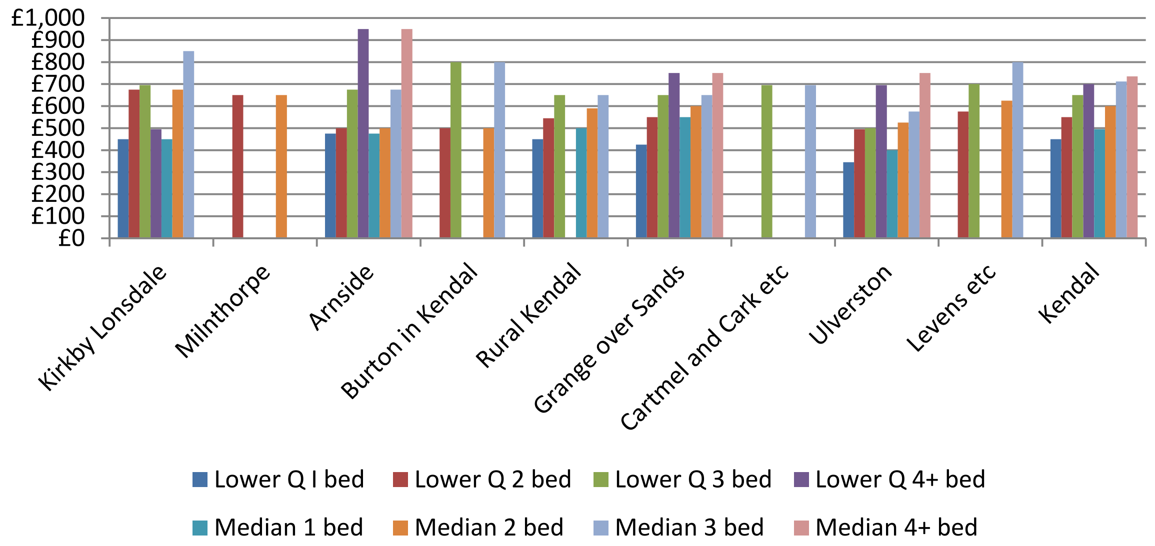
ii. What a unit let on Affordable Rent is actually worth.

4.41 This figure depends, in a large part, on the level at which Affordable Rent is set, the terms of the lease and the tenant (are they reliable and will they pay their rent?).

4.42 Currently, financially sound RPs can borrow at interest rates between 5% and 7% (depending on the details of the proposal). On this basis to make up for £40,000 of lost grant, a little under £40 per week of extra rent needs to be collected. The current social rents in the area are shown above and by way of an example, to make up the lost grant on a 2 bedroom home, the rent will need to be increased by about 40% (from £98/week to £140/week).

4.43 The amount of the affordable rent is the principal factor determining the value of the units. We have assumed that it is to be set at 80% of the full open market rent of the properties in question. We have assumed that because a typical affordable rent unit will be new, it will command a premium rent that is a little higher than equivalent older private sector accommodation. In estimating the level of affordable rent, we have undertaken a survey of rents across the District.

Figure 4.8 Median Rents by Main Settlement – £/Month



Source: Market Survey January 2013 – Note limited sample size mean these figures should be treated with some caution

4.44 The rents vary considerably – particularly for larger units. The rents are for unfurnished accommodation and exclude single rooms and Houses in Multiple Occupation (HMOs).

4.45 As part of the reforms to the social security system, housing benefit /local housing allowance is capped at the 3rd decile of open market rents for that property type, so in practice affordable rents are unlikely to be set above these levels. The cap is set by the Valuation Office Agency by Broad Housing Market Area (BHMA) however these BHMAs do not follow local authority boundaries. The LHA Cap is set by BHMA see below. Where this is below the level of Affordable Rent at 80% of the median rent we have assumed that the Affordable Rent is set at the LHA Cap.

Table 4.7 BHMA Caps (£/week)

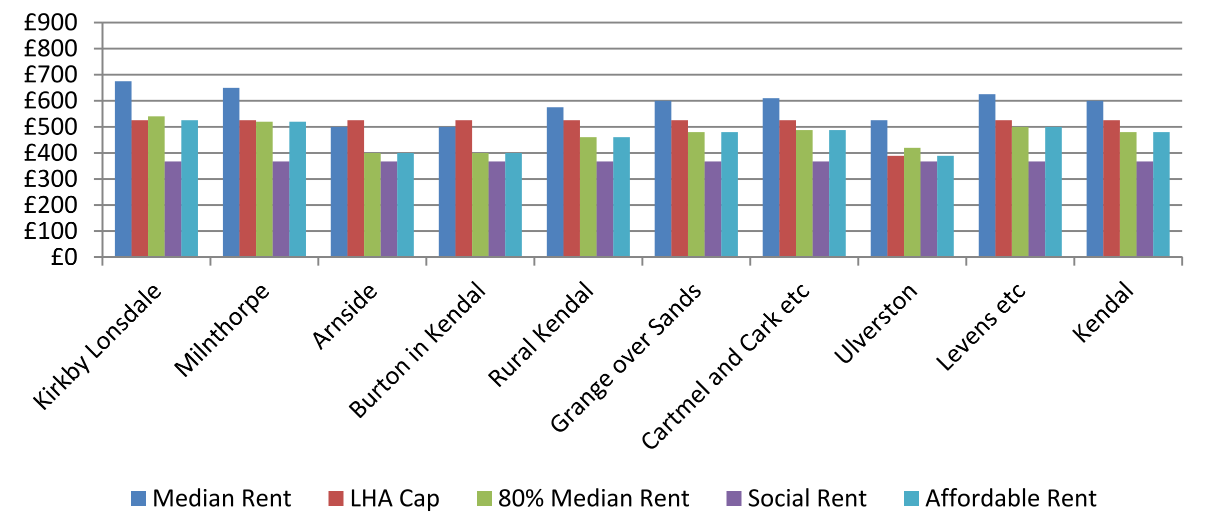
	Barrow-in-Furness BHMA	Kendal BHMA
Shared Accommodation	61.96	63.50
One Bedroom	75.00	98.08
Two Bedrooms	89.75	121.15
Three Bedrooms	109.31	144.23
Four Bedrooms	137.31	178.85

Source: VOA

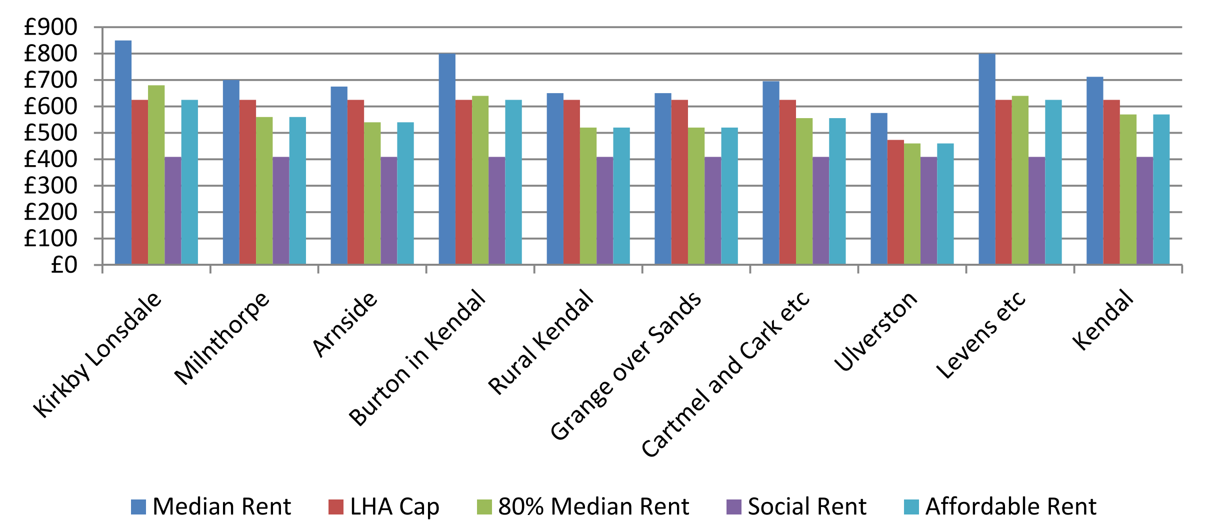
4.46 The prevailing rents in the main settlements (i.e. where the development will take place) can be summarised as follows and forms the basis of the appraisals:

Figure 4.9 Rents by Tenure and Settlement – £/Month

2 Bed



3 Bed



Source: HDH 2013

4.47 We have assumed that Affordable Rent will be set at 80% of the median rent or the LHA Cap whichever is lower. In calculating the value of affordable rents we have allowed for 10% management costs, 4% voids and bad debts and 6% repairs, and capitalised the income at 5.5%. On this basis, Affordable Rented property has the worth shown in the table below in the main settlements.

4.48 Following the initial consultation event on 7th February, various housing associations submitted information on the prices that they are paying for affordable rent, and we understand this to be between £1,095/m^2 and £1,270/m^2. It is necessary to make some broad assumptions (it is a high level study). We have assumed that affordable rent has a value of £1,050/m^2 or the value shown in the table below (taking the mid-point between the 2 and 3 bed figures) – whichever is the higher. This is a simplification of the reality but appropriate in this high level study.

4.49 At the Consultation Event on the 7th February, we initially suggested that affordable rent would have a value of 60% of OMV across all sites. The above assumptions reflect the stakeholders' comments. These above assumptions were discussed again at the consultation event on 11th March. There was a general experience amongst developers that in South Lakeland there are relatively few active Housing Associations, and those that there are have limited funds at present. Whilst it was agreed that the above figures are reflective of recent experience and should be used in the study, there was concern that it may not be possible to elicit bids from Housing Associations.

Table 4.8 Calculation of value of Affordable Rent

	Kirkby Lonsdale	Milnthorpe	Arnside	Burton in Kendal	Rural Kendal	Grange over Sands	Cartmel and Cark etc	Ulverston	Levens etc	Kendal
2 bed										
Annual Rent	£6,300	£6,240	£4,800	£4,800	£5,520	£5,760	£5,856	£4,668	£6,000	£5,760
Net Rent	£5,040	£4,992	£3,840	£3,840	£4,416	£4,608	£4,685	£3,734	£4,800	£4,608
Worth	£91,636	£90,764	£69,818	£69,818	£80,291	£83,782	£85,178	£67,898	£87,273	£83,782
Approx £/m2	£1,222	£1,210	£931	£931	£1,071	£1,117	£1,136	£905	£1,164	£1,117
3 bed										
Annual Rent	£7,500	£6,720	£6,480	£7,500	£6,240	£6,240	£6,672	£5,520	£7,500	£6,835
Net Rent	£6,000	£5,376	£5,184	£6,000	£4,992	£4,992	£5,338	£4,416	£6,000	£5,468
Worth	£109,091	£97,745	£94,255	£109,091	£90,764	£90,764	£97,047	£80,291	£109,091	£99,421
Approx £/m2	£1,268	£1,137	£1,096	£1,268	£1,055	£1,055	£1,128	£934	£1,268	£1,156

Source: HDH 2013

The Treatment of Relets and Other Funding Sources

4.50 Before the reform, affordable housing funding a 3 bedroom / 4 person home was receiving up to about £25,000 to £45,000 of grant. Although the additional affordable rent over and above the social rent will make up a sizable contribution towards leveraging finance to replace the affordable housing grant, it may not make up the shortfall.

4.51 Housing associations that have an HCA funded development programme, are permitted to convert some of the existing Social Rented units to Flexible Tenancies and charge Affordable Rent – but only if the increased rent is used to leverage extra finance to enable the delivery of more affordable homes. It is very difficult to estimate with any accuracy to how many units this may apply.

4.52 The other source of funding that will be available to subsidise new units coming forward will be from sales (into the market and shared ownership staircasing) and from recycled grant being returned to new schemes. As mentioned above, there may also be some grant available.

4.53 With this in mind we believe that approximately £10,000 per unit (about £116m^2) of 'external' funding from relets, sales, recycled grant and fresh grant may be available in the future. Due to the uncertainty about this, we have assumed that no external funding will be available in the analysis in this report – an approach endorsed following consultation with the Council's housing officer.

Intermediate Products for Sale

4.54 SLDC use the term discounted for sale for what are more widely known as intermediate products for sale. These include shared ownership and shared equity products – SLDC often refer to these as Low Cost Home Ownership (LCHO). It appears that the market for these is limited at present with very few new units currently available in the study area (3 at April 2013) – although the Council have advised us that about 100 or so existing intermediate units are sold each year. At the consultation event on the 7th February we suggested that such products had a value of 70% of open market value.

4.55 The Council's has a definition within the Core Strategy that sets out what is and is not affordable housing. The Core Strategy limits the initial sale price of LCHO units as follows (this is reviewed annually):

Table 4.9 Maximum Sale Prices for LCHO		
Property type (Minimum sizes in brackets)	**Affordable Housing Prices** (initial sale prices)	Approximate £/m2
1 bed flats (**40 m^2**)	£70,000	£1,750
2 bed flats (**50 m^2**)	£80,000	£1,600
2 bed houses/bungalows (**65 m^2**)	£95,000	£1,461
3 bed houses (**75 m^2**)	£110,000	£1,466
4 bed houses (**85 m^2**)	£125,000	£1,470

Source: SLDC

4.56 The above represents the maximum amount payable by the purchaser of the property. The actual worth of the units will vary depending on the sale model used (shared ownership, shared equity etc). Where units are sold under shared ownership the developer will continue to receive a rent on the portion not purchased and this rent has a value. On a typical home this may be in the region of £30,000 – or about £450/m^2. It should be noted that if a rental element is charged under shared ownership, then SLDC ask that the initial affordable price be lowered to ensure that the monthly cost to the buyer remains the same.

4.57 It should be noted that the above prices are subject to viability testing where the developer believes that they depress the value of a scheme to such an extent as to make it unviable. As set out in Appendix 9 the Council have a good record in achieving their affordable housing targets.

4.58 We understand that typically affordable units on smaller sites are sold as LCHO, whilst on larger sites there is wider mix of tenures. Where housing associations are involved this is likely to include shared ownership products. It is necessary to make a broad assumption as to the value of intermediate products. In this report we have assumed a value of £1,465/m^2. This was agreed with the stakeholders at the event on the 6th March.

5. Non-Residential Property Market

5.1 This chapter sets out an assessment of the markets for non-residential property, providing a basis for the assumptions of prices to be used in financial appraisals for the sites tested in the study.

5.2 Although development schemes do have similarities, every scheme is unique to some degree, even schemes on neighbouring sites. Market conditions will broadly reflect a combination of national economic circumstances and local supply and demand factors, however even within a town there will be particular localities, and ultimately site specific factors, that generate different values and costs.

Key Markets in South Lakeland

5.3 The NPPF and CIL Regulations and CIL Guidance require the use of existing available evidence and for the viability testing to be appropriate to the likelihood of raising CIL. There is no need to consider all types of development in all situations – and certainly no point in testing the types of scheme that are unlikely to come forward – or for that matter unlikely to be viable.

5.4 As with the housing market, the various non-residential markets in the SLDC area reflect national trends, but there are local factors that underpin the market. The key commercial centres within the District are Kendal and Ulverston, but there are numerous pockets of commercial use in smaller settlements – nearly all of which have an employment area.

5.5 Commercial activity does of course take place more widely that this – indeed the majority of the area (by land use) is actively and commercially farmed.

Market Survey

5.6 We undertook a market survey of new and recent deals for commercial properties for sale and to let by reference to agents advertising and the Propertylink property website (a commercial equivalent of Rightmove). Additionally we have made use of EGI data that records past transactions in the non-residential sector.

5.7 We have concentrated on newer property and not surveyed the wider market of older units and buildings. This study is concerned with development viability – there is, in nearly all situations, some space that is available at rents and values that are substantially lower than these amounts, particularly commercial space above retail units and near town centres that have limited car parking and facilities.

5.8 We surveyed the following commercial property categories:

Industrial Office Retail Leisure Other/land

5.9 The first and overriding finding is that there is very little non-residential development taking place – and the little that there is, is not speculative development by developers, rather it is being developed for specific end users. The second finding is that there is a significant amount of empty space that is available for let or for sale (although a proportion of this is rather dated and may not meet the current requirements of business). These two points are important and they suggest that the development of commercial property remains difficult.

5.10 The commercial markets in the SLDC centres largely on Kendal. **Appendix 4** includes details of units currently available within and near to the District.

Industrial

5.11 The industrial property market in SLDC is quiet for both sale and lettings. In order to gather information we have looked beyond the District's boundaries Average annual rents achieved for industrial properties across the whole area were £45 /m^2 for smaller units and up to a maximum of about £55/m^2 for good quality new units.

5.12 Based on our wider experience we had expected to find a premium for smaller units however found little evidence for this in SLDC. Rents are dependent on the quality of the unit rather than its more general location with good modern units, with good access – particularly to the main roads achieving a premium.

5.13 We have assumed industrial rents of £55/m^2 in Kendal and the east of the District and £50m^2 in Ulverston and the west of the District (being west of the Leven Estuary).

Offices

5.14 As with industrial land the market for office space is centred on Kendal – however there is a diversity with many smaller units scattered throughout the rural areas (such as Dalton Hall). Typical rents achieved for good offices across the whole area are in the region of £100/m^2 to £120/m^2. Where there are differences these tend to be more to do with the quality of the unit – the situation, the quality and character of the space and availability of parking etc.

5.15 There are units available at rents considerably below this level however the units are not generally typical of those new units that may come forward in the future.

5.16 As we had expected, rents in the west of the District (west of the Leven Estuary) are lower. We have assumed rents in Kendal and the east of £120/m^2, and in Ulverston and the west £100/m^2.

Appraisal Assumptions

5.17 Having surveyed the non-residential property markets we have found that there is a significant range of rents and values across the District. On further investigation we concluded that these were, on the whole, more to do with the specific characteristics of the location in question (access to transport network, environment, etc.) rather than the geographical location and that new development that is well located would attract broadly similar rents and values in most of the area. Having said this the area to the west of the Leven Estuary does have a distinctly different market with lower rents and values.

5.18 We reiterate that the commercial development market is going through a difficult period and – this needs to be kept under close review as whilst development may not be viable now, relatively small changes in yields will results in improved viability.

5.19 Through analysing the available rental space and the space for sale we have formed a view as to the capital value of industrial and office space. In capitalising the rents we have assumed a yield based on newly developed units in the area. We acknowledge that the yield will vary from property to property and will depend on the terms of the lease and the standing of the tenant, however, we believe that the figures used are broadly representative and appropriate for a study of this type.

5.20 The rental assumptions and yields presented at the first consultation event are shown in the following table.

Table 5.1 Capitalised typical rents £/m^2

	Rent £/m^2	Yield	Capitalised Rent £/m^2
Industrial East	55	7.50%	£733
Industrial West	50	7.50%	£667
Office East	120	8.00%	£1,500
Office West	100	7.50%	£1,333
Distribution	55	8.00%	£688

Source: HDH Market Survey 2013

5.21 The lower yields for offices in the west, reflect their relative attractiveness for investors, conversely the higher yield for small retail and leisure uses reflect that there is not an established market in this asset class amongst investors.

5.22 One consultee suggested that for smaller units in the office and industrial sectors a yield in the District of 10% would be more normal. We agree; however bearing in mind the nature of sites within the DPD and this study only concerns new property we have not altered our assumption.

5.23 Inevitably the data in the table above does not match perfectly with the asking prices of properties in the market. We have therefore looked at further sources of information to produce the following results that we have used in our appraisals:

Table 5.2 Non Residential Values for Appraisals £/m^2	
Industrial East	750
Industrial West	700
Office East	1500
Office West	1300
Distribution	700

Source: HDH 2012

5.24 These assumptions were presented at the consultation on 7th February and there was a general (but not universal) consensus that they were representative. Subsequently comments were made that the yields for industrial and office uses were too low (making the value too high). We have not made further changes in this regard.

6. Land Prices

6.1 In the section headed Viability Testing in Chapter 2 we set out the methodology used in this study to assess viability and set out the different approaches put forward in *Viability Testing in Local Plans – Advice for planning practitioners*, (LGA/HBF – Sir John Harman) (June 2012) and *Financial viability in planning, RICS guidance note, 1st edition (GN 94/2012)* (August 2012).

6.2 An important element of the assessment, under both sets of guidance, is the value of the land. Under the method recommended in the Harman Guidance, the worth of the land before consideration of any increase in value, from a use that may be permitted though a planning consent, being the Existing Land Value (ELV) or Alternative Land Value (ALV), is the starting point for the assessment as this is one of the key variables in the financial development appraisals. In this chapter we have considered the values of different types of land. The value of land relates closely to the use to which it can be put and will range considerably from site to site; however, as this is a high level study, we have looked at the three main uses, being: agricultural, residential and industrial. We have then considered the amount of uplift that may be required to ensure that land will come forward.

Current and Alternative Use Values

6.3 In order to assess development viability, it is necessary to analyse current and alternative use values. Current use values refer to the value of the land in its current use before planning consent is granted, for example, as agricultural land. Alternative use values refer to any other potential use for the site. For example, a brownfield site may have an alternative use as industrial land.

6.4 To assess viability, the value of the land for the particular scheme needs to be compared with the alternative use value, to determine if there is another use which would derive more revenue for the landowner. If then the Residual Value does not exceed the alternative use value, then the development is not viable, and if there is a surplus (i.e. profit) over and above the 'normal' developer's profit having paid for the land, then there is scope to pay CIL.

6.5 For the purpose of the present study, it is necessary to take a comparatively simplistic approach to determining the alternative use value. In practice, a wide range of considerations could influence the precise value that should apply in each case, and at the end of extensive analysis the outcome might still be contentious.

6.6 Our 'model' approach is outlined below:

i. For sites previously in agricultural use, then agricultural land represents the existing use value.

ii. For paddock and garden land on the edge of or in a smaller settlement we have adopted a 'paddock' value.

iii. Where the development is on former industrial, warehousing or similar land, then the alternative use value is considered to be industrial, and an average value of industrial land for the area is adopted as the alternative use value.

iv. Where the site is currently in residential use we have used a residential value.

Residential Land

6.7 We have considered general figures from the Valuation Office Agency (VOA) relating to residential land values. Land values vary dramatically depending upon the development characteristics (size and nature of the site, density permitted etc.) and any affordable or other development contribution.

6.8 The VOA publishes figures for residential land in the Property Market Report. These cover areas which generate sufficient activity to discern a market pattern. That means that locally we do not have any figures, Manchester Liverpool, Newcastle and Glasgow being the closest. The report does include figures for Wrexham which is a similar rural area with house prices that are not dissimilar to SLDC so is a relevant reference point.

6.9 These values can only provide broad guidance, they can therefore be only indicative, and it is likely that values for 'oven ready' land (i.e. land with planning consent and ready for immediate building) with no affordable provision or other contribution, or servicing requirement, are in fact higher.

Table 6.1 Residential Land Values at January 2011 Bulk Land £/ha (£/acre)	
Liverpool	1,500,000 (607,000)
Manchester	1,350,000 (546,000)
Glasgow	850,000 (344,000)
Newcastle	1,280,000 (518,000)
Wrexham	850,000 (344,000)

Source: VOA Property Market Report 2011

6.10 The values in the Property Market Report are based on the assumption that land is situated in a typically average greenfield edge of centre / suburban location for the area and it has been assumed that services are available to the edge of the site and that it is ripe for development with planning permission being available. The values provided assume a maximum of a two storey construction with density, S106 provision and affordable housing ratios to be based on market expectations for the locality (which are lower than those in the SLDC Core Strategy). The report cautions that the values should be regarded as illustrative rather than definitive and represent typical levels of value for sites with no abnormal site constraints and a residential planning permission of a type generally found in the area. It is important to note that these values are net – that is to say they relate to the net developable area and do not take into account open space that may form part of the scheme.

6.11 It should also be noted that the above values will assume that grant was available to assist the delivery of affordable housing (due to the date of the VOA Report). This grant is now very restricted so these figures should be given limited weight.

6.12 Further due to the date of the report, these values are well before the introduction of CIL, so do not reflect this new charge on development. As acknowledged by the RICS Guidance, a new charge such as CIL will inevitably adversely impact on land values.

6.13 We also sought information about values from residential land currently on sale in the District. None is being publicly marketed at the moment. We have therefore consulted agents operating in the area. We have been supplied with evidence of transactions that have taken place since 2009 in the area (including beyond SLDC). These range from a maximum of £2,500,000/ha (£1,000,000/acre) for a site with no affordable housing down to £665,000/ha (£270,000/acre) for a site of 60 units with 12 affordable homes (i.e. 20% Affordable). An interesting comparable was a site for 100 units with 50% affordable housing with a price of £1,172,000/ha (£475,000/acre).

6.14 Generally agents and interested parties, through the consultation process, suggested prices from over £790,000/ha (£320,000/acre) when calculated over the gross site area to about £1,000,000/ha (£400,000/acre) when calculated per net developable area. It is important to note that these prices relate to sales that took place before the introduction of CIL – and to a large extent do not fully take into account the full requirements of the SLDC 2010 Core Strategy and the emerging Cumbria County Council infrastructure developer contribution policies. As acknowledged by the RICS Guidance, it is inevitable that a 'tax' such as CIL will depress land values.

6.15 Through the consultation process we have been provided with evidence of further sales. These include a site for 14 homes in a small settlement where the price achieved was £2,224,000, although it is important to note that the site contained no affordable housing.

6.16 It is necessary to make an assumption about the value of residential land. We have assumed an historic value of £1,000,000/ha (£400,000/acre) for residential land. This amount is on a net basis to exclude the areas of open space and the like.

Industrial Land

6.17 The VOA's typical industrial land values for the nearby locations are not representative of the area. We have undertaken a market survey and there is a considerable variation in the prices. Based on this we have assumed figures of £500,000/ha (£200,000/acre) for the study area. This was discussed at the consultation event on 7th February and it was felt that this overstated the value. As a result we have assumed that industrial land in the west (i.e.

west of the Leven Estuary) has a worth of £300,000/ha (£121,000/acre) and the remainder of the District of £400,000/ha (£160,000/acre).

Agricultural and Paddocks

6.18 Agricultural values rose for a time several years ago after a long historic period of stability. Values are around £15,000-£25,000/ha depending upon the specific use. A benchmark of £25,000/ha is assumed to apply here. Through the consultation process a number of comments were received that this would only apply to the best agricultural land however we have taken the cautious view and not changed this assumption.

6.19 Sites on the edge of a town or village may be used for an agricultural or grazing use but have an value over and above that of agricultural land due to their amenity use. They are attractive to neighbouring households for pony paddocks or simply to own to provide some protection and privacy. We have assumed a higher value of £50,000/ha for village and town edge paddocks.

Use of alternative use benchmarks

6.20 The results from appraisals are compared with the alternative use values set out above in order to form a view about each of the sites' viability. This is a controversial part of the viability process and the area of conflicting guidance (the Harman Guidance verses the RICS Guidance). In the context of this report it is important to note that it does not automatically follow that, if the residual value produces a surplus over the alternative use value benchmark, the site is viable. The land market is more complex than this and as recognised by paragraph 173 of the NPPF, the landowner and developer must receive a '*competitive return*'. The phrase *competitive return* is not defined in the NPPF, nor in the Guidance.

6.21 We have set out the Shinfield appeal decision below. This provides some help as to what a competitive return is (and is not) however as yet competitive return, has not been fully defined through planning appeals and the court system[15]. The RICS Guidance includes the following definition:

Competitive returns - A term used in paragraph 173 of the NPPF and applied to 'a willing land owner and willing developer to enable development to be deliverable'. A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value

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[15] In this context the following CIL Examination are relevant.

Mid Devon District Council by David Hogger BA MSc MRTPI MCIHT, Date: 20 February 2013

Greater Norwich Development Partnership – for Broadland District Council, Norwich City Council and South Norfolk Council. by Keith Holland BA (Hons) Dip TP, MRTPI ARICS Date: 4 December 2012 *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. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project.*

6.22 Whilst this is useful it does not provide any guidance as to the size of that return. To date there has been much discussion within the industry and amongst planners as to what may and may not be a competitive return, as yet the term has not been given a firm definition through the appeal, planning examination or legal processes. The January 2013 appeal APP/X0360/A/12/2179141 (Land at The Manor, Shinfield, Reading RG2 9BX) does shed some light in this. We have copied a number of key paragraphs below as, whilst these do not provide a strict definition of competitive return the inspector (Clive Hughes BA (Hons) MA DMS MRTPI) does set out his analysis clearly. The following paragraphs are necessarily rather long however as they are the only current steer in this regard we have included all that are relevant.

37. Core Strategy Policy CP5 says that all residential developments … will provide up to 50% of the net additional units proposed as affordable units, where viable. The policy includes a table which identifies the appeal site … where the minimum percentage of affordable housing sought is 40% ***subject to viability****. It is the viability, or otherwise, of the amount of affordable housing now sought that is at issue. The Council is seeking 40% of the net additional units to be affordable housing in accordance with that policy; the appellants assert that the maximum amount that would be viable is 2%....*

38. Paragraph 173 of the Framework advises 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. The Framework provides no advice as to what constitutes a competitive return; the interpretation of that term lies at the heart of a fundamental difference between the parties in this case. The glossary of terms appended to the very recent RICS guidance note Financial viability in planning (RICS GN) says that a competitive return in the context of land and/ or premises equates to the Site Value (SV), that is to say the Market Value subject to the assumption that the value has regard to development plan policies and all other material considerations and disregards that which is contrary to the development plan. It is also the case that despite much negotiated agreement, in respect of calculating the viability of the development, other significant areas of disagreement remain.

Developer's profit

43. The parties were agreed that costs should be assessed at 25% of costs or 20% of gross development value (GDV). The parties disagreed in respect of the profit required in respect of the affordable housing element of the development with the Council suggesting that the figure for this should be reduced to 6%. This does not greatly affect the appellants' costs, as the affordable housing element is 2%, but it does impact rather more upon the Council's calculations.

44. The appellants supported their calculations by providing letters and emails from six national housebuilders who set out their net profit margin targets for residential developments. The figures ranged from a minimum of 17% to 28%, with the usual target being in the range 20-25%. Those that *differentiated between market and affordable housing in their correspondence did not set different profit margins. Due to the level and nature of the supporting evidence, I give great weight it. I conclude that the national housebuilders' figures are to be preferred and that a figure of 20% of GDV, which is at the lower end of the range, is reasonable.*

Benchmark Land Value

57. There is a significant difference in the figures produced by the parties. The Council calculated a Benchmark Land Value of ……. During the Inquiry reference was made to Current Use Value (CUV) and Existing Use Value (EUV) but it was agreed that these definitions are interchangeable in respect of the calculations used for this site.

58. Since the use of the land by … ceased, the site was used for a couple of years for open storage with the benefit of temporary planning permission. While that permission was personal and time limited, advice on the Decision Notice said that the development accorded with the adopted and emerging development plan. This is not surprising as the site is still allocated for employment uses. The appellants use open storage on the site as a starting point.

59. The appellants again made use of a comparator site, an open storage site … having recently been sold. This site has the benefit, in valuation terms, of having no hope value for residential use due to potential flood risk in the access roads. That use was dismissed at appeal. …

61. The appellants' valuation of the site is £2,325,000 based upon 8 acres of commercial open storage/ industrial land and buildings at £250,000 per acre and 13 acres of settlement fringe at £25,000 per acre. The figure of £250,000 per acre seems reasonable in the light of the recent sale value achieved at the smaller site at Paddock Road (£330,000 per acre).

62. The Council did not use comparators; instead it relied upon a valuation based upon a substantial office scheme on the appeal site. This was based upon the outline planning permission for offices on the site in 2003 that was renewed in 2006 but which has since lapsed. This development provided a value of £2.75m; from this it is necessary to subtract the cost of decontaminating the land. This gives a benchmark SV of £1.865m, a figure revised from the Council's original evidence to take account of the agreed costs of decontamination. I am concerned about this approach in that the Council has failed to demonstrate that there is any market for such a substantial office development here. Indeed, the only recently completed (2009) office development of comparable scale, The Blade in Reading, is still largely vacant.

63. Overall, therefore, there is a difference between the parties of about £500,000 (£2.3m compared to £1.8m) in the benchmark land value. Neither figure is wholly watertight……

Competitive return

64. Determining what constitutes a competitive return inevitably involves making a subjective judgement based upon the evidence. Two very different viewpoints were put forward at the Inquiry with the appellants seeking a land value of £4,750,000 which is roughly the mid-point between the EUV/CUV and the RLV with planning permission for housing and no obligations. This ties in with the 50:50 split between the community and the landowner sought by the appellants. The Council considered that a sum of £1.865m would ensure a competitive return; that is to say the Council's calculation of the EUV/CUV.

65. Paragraph 173 of the Framework says that the costs of any requirements should provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable. The paragraph heading is "Ensuring viability and deliverability"; it is clear that its objective is to ensure that land comes forward for development. I am not convinced that a land value that equates to the EUV/CUV would provide any incentive to the landowner to sell the site. Due to the particular circumstances of this site, including the need to remediate the highly significant level of contamination, such a conclusion would not provide any incentive to the landowner to carry out any remediation work. There would be no incentive to sell the land and so such a low return would fail to achieve the delivery of this site for housing development. In these circumstances, and given the fact that in this case only two very different viewpoints on what constitutes a competitive return have been put forward, the appellants' conclusions are to be preferred. In the scenario preferred by the Council, I do not consider that the appellants would be a willing vendor.

Viable amount of Affordable Housing

66. The RICS GN says that any planning obligations imposed on a development will need to be paid out of the uplift in the value of the land but it cannot use up the whole of the difference, other than in exceptional circumstances, as that would remove the likelihood of land being released for development. That is exactly what is at issue here in that the Council's valuation witness, in cross examination, stated that a landowner should be content to receive what the land is worth, that is to say the SV. In his opinion this stands at £1.865m. I accept that, if this figure was agreed (and it is not), it would mean that the development would be viable. However, it would not result in the land being released for development. Not only is this SV well below that calculated by the appellants, there is no incentive to sell. In short, the appellants would not be willing landowners. If a site is not willingly delivered, development will not take place. The appellants, rightly in my opinion, say that this would not represent a competitive return. They argue that the uplift in value should be split 50:50 between the landowner and the Council. This would, in this instance, represent the identified s106 requirements being paid as well as a contribution of 2% of the dwellings as affordable housing.

70. I conclude on this issue that, allowing the landowner a competitive return of 50% of the uplift in value, the calculations in the development appraisal allowing for 2% affordable housing are reasonable and demonstrate that at this level of affordable housing the development would be viable (Document 26). The only alterations to these calculations are the relatively minor change to the s106 contribution to allow for a contribution to country parks and additions to the contributions to support sustainable modes of travel. These changes would have only a limited impact on the return to the landowner. The development would remain viable and I am satisfied that the return would remain sufficiently competitive to enable the land to come forward for development. Overall, therefore I conclude that the proposed amount of affordable housing (2%) would be appropriate in the context of the viability of the development, the Framework, development plan policy and all other material planning considerations.

6.23 It is clear that for land to be released for development, the surplus needs to be sufficiently large to provide an incentive to the landowner to release the site and cover any other appropriate costs required to bring the site forward for development. It is therefore appropriate and an important part of this assessment to have regard to the market value of land.

6.24 The RICS Guidance recognises that the value of land will be influenced by the requirements imposed by planning authorities. It recognises that the cost to the developer of providing affordable housing, building to increased environmental standards, and paying CIL, all have a cumulative effect on viability and are reflected in the ultimate price of the land. A central question for this study is at what point do the requirements imposed by the planning authorities make the price of land so unattractive that it does not provide competitive returns to the land owner, and does not induce the owner to make the land available for development.

6.25 The reality of the market is that each and every land owner has different requirements and different needs and will judge whether or not to sell by their own criteria. We therefore have to consider how large such an 'uplift' or 'cushion' should be for each type of site to broadly provide a competitive return. The assumptions must be a generalisation as in practice the size of the uplift will vary from case to case depending on how many landowners are involved, each landowner's attitude and their degree of involvement in the current property market, the location of the site and so on. An 'uplift' of, say, 5% or £25,000/ha might be sufficient in some cases, whilst in a particular case it might need to be five times that figure, or even more.

6.26 Initially, based on work we have done elsewhere, we assumed (and presented to the consultation event on 7th February) that the Viability Threshold (being the amount that the Residual Value must exceed for a site to be viable) of the EUV / AUV plus a 20% uplift on all sites would be sufficient. This is supported both by work we have done elsewhere and by appeal decisions (see Chapter 2). Based on our knowledge of rural development, and from working with farmers, landowners and their agents, we have made a further adjustment for those sites coming forward on greenfield land. We added a further £250,000/ha (£100,000/acre) to reflect this premium. We have also added this amount to sites that were modelled on land that was previously paddock.

6.27 We fully accept that this is a simplification of the market, however in a high level study of this type that is based on modelled sites, simplifications and general assumptions need to be made.

6.28 This approach does reflect a very considerable uplift for a landowner selling a greenfield site with consent for development[16]. In the event of the grant of planning consent they would receive over ten times the value compared with before consent was granted. This approach (but not the amount) is the one suggested in the *Viability Testing Local Plans* (see Chapter 2 above) and by the Planning Advisory Service (PAS). The approach was endorsed by the

[16] See Chapter 2 for further details and debate around EUV plus v Market Value methodologies.

Planning Inspector who approved the London Mayoral CIL Charging Schedule in January 2012[17].

6.29 We have considered how these amounts relate to prices for land in the market (see above), with a view to providing competitive returns to the land owner. Whilst there are certainly land transactions at higher values than these we do believe that these, are appropriate for a study of this type.

6.30 This subject was the only point where a consensus could not be reached with the stakeholders – particularly the representatives of the larger landowners. This was the most controversial point. The agents for the developers made a range of representations – mainly around the size of the uplift, arguing that it was not sufficient to incentivise owners to promote land and make it available for development.

6.31 At the 7th February event two alternative suggestions were made for residential land:

- The viability threshold for greenfield sites should be the existing use value plus 15% plus £400,000/ha.
- The viability thresholds had to be at least £1,000,000/ha otherwise development would not come forward.

6.32 We have set out the various comments submitted in writing following the event on the 7th February in this regard below. We have not attributed these to the consultees as we undertook to present all representations on an anonymised basis.

[17] Paragraphs 7 to 9 of REPORT ON THE EXAMINATION OF THE DRAFT MAYORAL COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE by Keith Holland BA (Hons) DipTP MRTPI ARICS an Examiner appointed by the Mayor Date: 27th January 2012

Table 6.2 Consultees' comments regarding 'competitive return'		
Landowner's agent	I don't think my client would be overwhelmed by a value of £988,000 /ha The uplift of 15% over the existing use value plus £250,000/ha is not sufficient for the purpose of this exercise.	No specific alternative suggested.
Landowner's agent	… it will be necessary to make greater use of benchmarks, taking account of local partner views on market data and information on typical minimum price provisions used within developer/site promoter agreements for sites of this nature. If such benchmarks are disregarded, there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound	No specific benchmarks suggested.
Planning Consultant	There seems to be a notion that the development value of a site has some meaningful relationship with the existing use value of the land and this is confirmed in prompt sheet point 8 titled 'alternative land values', in which values of agricultural land and paddock use are postulated. We have to say that this is looking down the wrong end of the telescope. The development value of land is a key factor in any financial appraisal and is a product of GDV, costs and required profit. The existing use value of the land, certainly where greenfield land is concerned, does not feature in this equation.	No suggestion was made as to what alternative approach may be taken.
Estate Agent and Chartered Surveyor	… a simple calculation suggests £128,000 per acre for residential land and item 8 on the previous page suggests £400,000 per acre – which is still probably below expectations on most of the proposed sites in the land allocations document. The former figure will not deliver any of the sites proposed - in my view. There needs in my opinion to be a base value i.e. £1,000,000 per hectare with a proportional "uplift" for the differing qualities of site with regard to location/property values	£1,000,000 /ha suggested.
Estate Agent and Chartered Surveyor	The residual values stated in the presentation do seem low. It would be unreasonable to expect owners to dispose of their land at these figures.	No specific benchmarks suggested.
Builder/developer	… residential land use is shown as £1,000,000/ha which is the sort of level which is likely to be acceptable to landowners. The calculation for greenfield equates to circa £260,000 which is too low to encourage most landowners to sell.	No specific benchmarks suggested.
Regional Housebuilder	… land values are way below market values being achieved anywhere across the Northwest. The NPPF states that competitive returns must be provided and these should be comparable. The Harman Report also discourages the use of land values as a measure of gross hectares.	No specific benchmarks suggested.
Local Builder/developer	The papers provided refer to Residual Land Value versus Alternative Use Value and then suggest that land will be valued for CIL and sale purposes at existing land values plus what appears to be an arbitrary uplift to 'existing use value plus'. It was suggested at the meeting that for greenfield agricultural land, that this would be less than £300,000/ Ha. We do not believe from our experience with dealing with local land owners and agents that this would be anywhere close to the price which would result in the release of the majority of the proposed sites. Page 29 of the Harman report emphasises the importance of evidence that the figure is high enough to persuade land owners to sell. This is reinforced by paragraph 8 on the following page. What evidence are you supplying to substantiate that owners will release at your figures? …… Ultimately the Threshold Land Value has to be set at a level which will ensure land supply will be released. We do not believe that the proposed assumptions, methodology and a substantial number of the inputs will achieve this. Consequently there is a	No suggestion was made as to what alternative approach may be taken

	real danger of the whole plan being found unsound unless these are addressed before this process goes any further.	
Estate Agent / Chartered Surveyor	… the “Uplift” factors proposed in the Viability Study Draft supplied by you are unrealistic and low. I am not aware of greenfield landowners who will contemplate selling for residential purposes at a land value of, if I understand your figures correctly, less than £120,000 per acre (£297600 per ha). This will particularly be the case in South Lakes where historically land values have been relatively high. In my opinion it is vital that the Viability Threshold is not set at a level which is too low as this will restrict the supply of land onto the market and inhibit the Local Authority from achieving Housing Number Targets . There are of course differing circumstances for all potential sellers but by and large unless someone is forced to sell they will hold onto their asset until they achieve what the market perceives to be a realistic value. I believe that will be the result if the figures put forward in the Brief are adopted. I am advised the Planning Advisory Service ‘Viability Handbook and Exercises” (January 2011) proposes an uplift of £300,000 per acre (£740,000 per ha) …	
Planning Consultant	EUV plus 15% plus £250,000/ha is not sufficient.	Suggestion that the viability threshold should be a minimum of 25% of GDV.

Source: Consultation Responses (Note acres have been converted to hectares for purposes of consistency)

6.33 It is clear that there is no consensus as to what approach to take and there was not agreement amongst the consultees.

6.34 On reflection we suspect, but it is difficult to say definitively, that there is a considerable amount of hope and expectation that relates to the years before the 2007 crash, the 2010 Core Strategy and CIL. There is no doubt that CIL will be an additional cost on some development sites, and that some sites may not be able to bear the costs of all the requirements a planning authority makes – such as delivering affordable homes and higher environmental standards. This is noted in the RICS Guidance which recognises that there may well be a period of adjustment in the price of land following the introduction of CIL. Further it is suggested through the Greater Norwich CIL Examination Report that, in that case, the impact of CIL may be a 25% reduction in land prices.

6.35 To move the study forward, in the second iteration of this report (i.e. that for the second consultation event on 22nd February) we used alternative land prices of:

i.	Agricultural Land	£25,000/ha	
ii.	Paddock Land	£50,000/ha	
iii.	Industrial Land	West	£300,000/ha
		Remainder	£400,000/ha

6.36 To calculate the Viability Threshold (the amount the Residual Value must exceed for a site to be viable) we initially assumed a percentage uplift of 20% on all sites. In addition to this we have assumed a further uplift of £400,000/ha on greenfield sites (being those in agricultural and paddock uses). Following the second consultation event further comments were received and these varied considerably.

- It was argued that any amount above the Existing Use Value was a sufficient adequate 'competitive return' but this was not the consensus.
- It was suggested the £400,000/ha was not the right figure, but no alternative figure was suggested.
- £1,000,000/ha per net developable hectare remained the minimum price land owners would accept so the assessment should be based on this.
- A leading local land agent suggested he would not advise his clients to sell for less than £500,000/ha
- £400,000/ha would enable most sites to be seen as viable – but £600,000 was certainly sufficient to deliver the plan – but even at £600,000/ha some land owners would not bring land forward. On balance £400,000 would be given serious consideration and based on historic sales £500,000/ha may be appropriate.
- At the present time owners are unlikely to consider a sale at less than £1,000,000/ha (£400,000/acre) (developable).….

6.37 It is clearly unsatisfactory to proceed with an assessment of this type without some form of consensus on this point as it is fundamental to the assessment as to whether landowners will make their land available for development. The Harman Guidance is clear and common sense tells us that some form of agreement is desirable if the Council is to be able to show, with any confidence, that the plan is deliverable.

6.38 On the 11th March a further consultation was made with a core group of residential agents and developers to discuss this point further. As the discussion progressed it became clear that an agreement would not be reached. At least one consultee questioned the need for a Land Allocations and it was suggested that 'planning by appeal' may be preferable – particularly for those representing owners with land not in the DPD. In the end there were three main positions:

a. Land owners would not sell for less than £1,000,000/ha (net developable) – although it should be noted that some agents suggested that a higher figure of £1,235,000/ha was the real figure.

b. Land owners would not sell for less than 25% of gross development value.

c. £400,000/ha would provide a competitive return and would enable land to come forward.

6.39 It is appropriate to stress at this point that the disagreement was not a simple disagreement between the Council and the industry on this point. There was considerable disagreement amongst the stakeholders as well. The Council worked hard to agree a universally acceptable assumption, but this was not possible.

6.40 The initial uplift assumption in relation to non-residential land (20% plus £250,000/ha) remains unchanged through the process.

6.41 Particular concern has been expressed around sites in multiple-ownership and with access arrangements that were subject to third party agreements. In the case of sites in multiple-ownership it was argued that a very much higher amount was necessary as each of the owners would want a substantial payment. This may well be the case, however a high level study of this type cannot model on this basis and the Council will need to seek separate assurances from owners of such sites that they will be brought forward.

6.42 Sites that are subject to third party access will need to secure the access arrangements if they are to come forward. The valuation approach to this is well accepted through the principles set out in Stokes v Cambridge[18]. The cost of acquiring the access will be deducted from the value of land and the owner will need to lower their expectations as to value as they will need to purchase the access to open up their land. We do not accept that the acquisition of the access should be seen as an additional costs over and above the land costs. The cost of acquiring the access to open up a site should be treated as a land cost and not an abnormal cost of development. Where sites are subject to such constraints, the deliverability of the site is not a viability issue but one of a willingness to make the land available.

6.43 In an effort to move the study forward we have considered each of the three ‘tests’ set out above – see Chapter 10.

[18] Stokes v. Cambridge Corporation (1961) 13 P & CR 77

7. Appraisal Assumptions – Development Costs

7.1 This chapter considers the costs and other assumptions required to produce financial appraisals for the modelled sites. These figures were presented to the stakeholders at the first consultation event and largely agreed.

Development Costs

(i) Construction costs: baseline costs

7.2 We have based the cost assumptions on the Building Cost Information Service (BCIS) data – using the figures re-based specifically for South Lakeland. The costs are specific to different built forms (flats, houses, etc). We have considered these and made appropriate adjustments – particularly to the smaller sites that are more likely to be in sensitive and more rural locations.

7.3 The Council has developed policies relating to the construction standards and environmental performance of new buildings. The current policy requirement is that homes are built to the basic Building Regulation Part L 2010 Standards.

7.4 From April 2008, the Code's Level 3 has been a requirement for all homes commissioned by housing associations but would not necessarily be the case for affordable homes built by developers for disposal to a housing association, unless grant was made available from the Homes and Communities Agency.

7.5 The Department for Communities and Local Government (CLG) published a review of the costs of building to the Code for Sustainable Homes (CfSH) in August 2011. This provides useful guidance as to the costs of the implementation of the various environmental standards. Bearing in mind the move towards higher standards with the amendments to Building Regulations we have assumed a minimum standard of CfSH Level 4.

7.6 We have assumed an additional cost, based on table 7.1 over and above BCIS costs for building to CfSH Level 4.

7.7 During the consultation process it was suggested that BCIS upper quartile prices should be used and then increased to reflect the local build costs. We do not accept this and have used the median figure for South Lakeland. This is based on local prices so is representative. We can see no case for using anything other than the median figure.

Table 7.1 Additional Cost of Building to CfSH Level 4 (per dwelling)					
	2b-Flat	2b-Terrace	3b-Semi	4b-Detach	Average dwelling
Small brownfield (20 dwellings at 40 dph)		£3,500 4.4%	£4,580 5.3%	£5,140 5.5%	£4,260 5.0%
City Infill (40 dwellings at 160 dph)	£3,400 6.2%				£3,400 6.2%
Edge of town (100 dwellings at 40 dph)	£3,950 7.2%	£4,280 5.3%	£5,360 6.2%	£5,920 6.4%	£4,787 6.2%
Urban Regeneration (1,000 dwellings at 160 dph)	£3,330 6.1%	£3,210 4.0%	£4,300 5.0%	£4,930 5.3%	£3,435 5.4%
Strategic Greenfield (2,000 dwellings at 40 dph)	£3,930 7.2%	£4,260 5.3%	£5,340 6.2%	£5,900 6.4%	£4,846 6.1%
Large edge of town (3,300 dwellings at 40 dph)	£3,930 7.2%	£4,260 5.3%	£5,340 6.2%	£5,900 6.4%	£4,705 6.2%

Source: Cost of building to the Code for Sustainable Homes, Updated cost review. CLG (Aug 2011)

7.8 **Appendix 5** contains the December 2012 BCIS build costs for South Lakeland[19] – broken into a number of key development types. We have used the median costs for the different development types that occur on the appraisal sites. We acknowledge that this is a relatively simplistic approach however by making the adjustments set out below we are comfortable with this approach in this high level and broad brush study.

(ii) Construction costs: site specific adjustments

7.9 It is necessary to consider whether any site specific factors would suggest adjustments to these baseline cost figures. Two factors need to be considered in particular: small sites and high specification.

7.10 During the mid-1990s planning guidance on affordable housing was based on the view that construction costs were appreciably higher for smaller sites with the consequence that, as site size declined, an unchanging affordable percentage requirement would eventually render the development uneconomic. Hence the need for a 'site size threshold', below which the requirement would not be sought.

7.11 It is not clear to us that this view is completely justified. Whilst, other things being held equal, build costs would increase for smaller sites, other things are not normally equal and

[19] Weighted to SLDC index of 89

there are other factors which may offset the increase. The nature of the development will change. The nature of the developer will also change as small local firms with lower central overheads replace the regional and national house builders. Furthermore, very small sites may be able to secure a 'non-estate' price premium.

7.12 In the present study, several of the sites are considered to fall into the 'small site' category, on these sites we have used the appropriate small site costs from BCIS.

7.13 On the smaller modelled sites we have made an allowance of an additional 5% to reflect the higher specification that would be normal.

(iii) Construction costs: affordable dwellings

7.14 The procurement route for affordable housing is assumed to be through construction by the developer and then disposal to a housing association on completion. In the past, when considering the build cost of affordable housing provided through this route, we took the view that it should be possible to make a small saving on the market housing cost figure, on the basis that one might expect the affordable housing to be built to a slightly different specification than market housing. However, the pressures of increasingly demanding standards for housing association properties have meant that for conventional schemes of houses at least, it is no longer appropriate to use a reduced build cost; the assumption is of parity.

(iv) Other normal development costs

7.15 In addition to the BCIS £/m^2 build cost figures described above, allowance needs to be made for a range of infrastructure costs (roads, drainage and services within the site, parking, footpaths, landscaping and other external costs), off-site costs for drainage and other services and so on. Many of these items will depend on individual site circumstances and can only properly be estimated following a detailed assessment of each site. This is not practical within this broad brush study.

7.16 Nevertheless, it is possible to generalise. Drawing on experience and the comments of stakeholders it is possible to determine an allowance related to total build costs. This is normally lower for higher density than for lower density schemes since there is a smaller area of external works, and services can be used more efficiently. Large greenfield sites would also be more likely to require substantial expenditure on bringing mains services to the site.

7.17 In the light of these considerations we have developed a scale of allowances for the residential sites, ranging from 10% of build costs for the smallest sites, to 20% for the larger greenfield schemes.

7.18 We have given careful thought as to how *major strategic sites* (for example the land to the south of Ulverston) should be treated as these large sites, by their nature, can have very significant infrastructure requirements that can have a dramatic impact on viability. Additionally, these large sites are a vital part of the Council's strategy to deliver its housing target – in some cases if the urban extension does not come forward then the Development Plan may be put at risk. The December 2012 CIL Guidance is clear saying:

34. Charging authorities may want to consider setting differential rates as a way of dealing with different levels of economic viability within the same charging area (see regulation 13). This is a powerful facility that makes the levy more flexible to local conditions. Differences in rates need to be justified by reference to the economic viability of development. Charging authorities can set differential levy rates for different geographical zones provided that those zones are defined by reference to the economic viability of development within them. In some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability.

7.19 We have read this with page 23 of the Harman Guidance which says:

Landowners and site promoters should be prepared to provide sufficient and good quality information at an early stage, rather than waiting until the development management stage. This will allow an informed judgement by the planning authority regarding the inclusion or otherwise of sites based on their potential viability.

7.20 The modelling and appraisals carried out in a high level strategic report such as this are going to be based on generic and district wide assumptions. The Council has consulted the owners and or promoters of the sites that are perceived to have higher costs inviting them to contribute to the assessment process. In order to include the strategic sites within the development plan, the Council must be sure that they can be delivered and if this is not demonstrated they will review as to whether or not the sites can be included.

(v) Abnormal development costs

7.21 All ten of the specific sites were considered by SLDC to have significant additional site specific costs that need to be incurred if the development is to progress. We have met with officers of SLDC to assess these. The summarised transport costs (as provided to us by SLDC) are included in **Appendix 6**. It is important to note that these are estimates and the actual costs may be different.

7.22 Several of the sites are modelled on, or partly on, previously developed land. We have set out the abnormal costs in **Chapter 9** where we set out the modelled sites. In some cases where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures; piling or flood prevention measures at waterside locations; remediation of any land contamination; remodelling of land levels; and so on. For the non-residential property, we have run a scenario where the site is on previously developed land. With this variable we have increased the costs by an additional 15% cost.

(vi) Fees

7.23 For residential development we have assumed professional fees amount to 10% of build costs in each case. This is made up as follows:

Architects	6%	QS and Costs	0.5%
Planning Consultants	1%	Others	2.5%

7.24 For non-residential development we have assumed 8%.

(vii) Contingencies

7.25 For previously undeveloped and otherwise straightforward sites we would normally allow a contingency of 2.5% with a higher figure of 5% on more risky types of development, previously developed land and on central locations. So the 5% figure was used on the brownfield sites and the 2.5% figure on the remainder.

7.26 It was suggested through the consultation process that a 5% contingency should apply to all sites. We do not accept that as the purpose of the contingency is, in part, to reflect the developers additional uncertainty and risks for tackling more difficult sites.

(viii) S106 Contributions

7.27 SLDC has had a limited policy of seeking payments from developers to mitigate the impact of the development through improvements to the local infrastructure. The Council does not have a well-developed strategy for collecting payments from developers. This is changing as in December 2012 Cumbria County Council published *Draft Planning Obligation Policy* setting out in exceptional detail the contributions that developers may be asked for. This is a very detailed document that is difficult to apply in a study of this type.

7.28 SLDC are in the process (working closely with Cumbria County Council) of updating their Infrastructure Delivery Plan (IDP). The process is nearing completion and is still subject to agreement in a number of key areas. It is thought that the overall requirement for education is to be between £15,000,000 and £20,000,000. Additionally we are advised that the highways contributions is about £1,200 per dwelling (note this relates to the Kendal area only).

7.29 Following discussion with SLDC we initially allowed for £2,500 per residential unit to be paid in the future in relation to County costs. Following the consultation process, and based on past trends, it was agreed to reduce this to £1,500 and to make no allowance for non-residential property.

7.30 From April 2014 the Council's ability to pool s106 payments will be restricted[20]. In due course the Council will introduce CIL. The Council's draft revision to its Local Development Scheme proposes a timetable for adoption of CIL during 2014. This will result in changes to

[20] Under CIL Regulation 123

this area of policy. We have run a set of appraisals with a range of different assumptions about infrastructure costs – see Chapter 10..

Financial and Other Appraisal Assumptions

(i) VAT

7.31 For simplicity it has been assumed throughout, that either VAT does not arise, or that it can be recovered in full.

(ii) Interest rate

7.32 Our appraisals assume 7% pa for total debit balances, we have made no allowance for any equity provided by the developer. This does not reflect the current working of the market nor the actual business models used by developers. In most cases developers are required to provide between 30% and 40% of the funds themselves, from their own resources so as to reduce the risk to which the lender is exposed.

7.33 The 7% assumption may seem high given the very low base rate figure (0.5% January 2013). Developers that have a strong balance sheet, and good track record, can undoubtedly borrow less expensively than this, but this reflects banks' view of risk for housing developers in the present situation. In the residential appraisals we have prepared a simple cashflow to calculate interest.

7.34 For the non-residential appraisals, and in line with the 'high level' nature of this study, we have used the developer's rule of thumb to calculate the interest – being the amount due over one year on half the total cost. We accept that is a simplification, however, due to the high level and broad brush nature of this analysis, we believe that it is appropriate.

7.35 The relatively high assumption of the 7% interest rate, and the assumption that interest is chargeable on all the funds employed, has the effect of overstating the total cost of interest. In this study a cautious approach is being taken, so we believe this is a sound assumption.

(iii) Developers' profit

7.36 Initially we assumed a developers profit of 20% on the total development cost to reflect the risk of undertaking development. This is a cautious and conservative assumption.

7.37 Neither the NPPF nor the CIL Regulations and nor CIL Guidance do not provide useful guidance in this regard so, in reaching this decision, we have considered the RICS's '*Financial Viability in Planning*' (August 2012), the Harman Guidance *Viability Testing Local Plans, Advice for planning practitioners* (June 2012), and referred to the HCA's Economic Appraisal Tool. None of these documents are prescriptive, but they do set out some different approaches.

7.38 RICS's '*Financial Viability in Planning*' (August 2012) says:

3.3.2 *The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. ……..*

7.39 LGA and HBF published *Viability Testing Local Plans, Advice for planning practitioners* (June 2012) which says:

Return on development and overhead

The viability assessment will require assumptions to be made about the average level of developer overhead and profit (before interest and tax).

The level of overhead will differ according to the size of developer and the nature and scale of the development. A 'normal' level of developer's profit margin, adjusted for development risk, can be determined from market evidence and having regard to the profit requirements of the providers of development finance. The return on capital employed (ROCE) is a measure of the level of profit relative to level of capital required to deliver a project, including build costs, land purchase, infrastructure, etc.

As with other elements of the assessment, the figures used for developer return should also be considered in light of the type of sites likely to come forward within the plan period. This is because the required developer return varies with the risk associated with a given development and the level of capital employed.

Smaller scale, urban infill sites will generally be regarded as lower risk investments when compared with complex urban regeneration schemes or large scale urban extensions.

Appraisal methodologies frequently apply a standard assumed developer margin based upon either a percentage of Gross Development Value (GDV) or a percentage of development cost. The great majority of housing developers base their business models on a return expressed as a percentage of anticipated gross development value, together with an assessment of anticipated return on capital employed. Schemes with high upfront capital costs generally require a higher gross margin in order to improve the return on capital employed. Conversely, small scale schemes with low infrastructure and servicing costs provide a better return on capital employed and are generally lower risk investments. Accordingly, lower gross margins may be acceptable.

This sort of modelling – with residential developer margin expressed as a percentage of GDV – should be the default methodology, with alternative modelling techniques used as the exception. Such an exception might be, for example, a complex mixed use development with only small scale specialist housing such as affordable rent, sheltered housing or student accommodation.

7.40 The HCA's Economic Appraisal Tool – the accompanying guidance for the tool kit says:

Developer's Return for Risk and Profit (including developer's overheads)

Open Market Housing

The developer 'profit' (before taxation) on the open market housing as a percentage of the value of the open market housing. A typical figure currently may be in the region of 17.5-20% and overheads being deducted, but this is only a guide as it will depend on the state of the market and the size and complexity of the scheme. Flatted schemes may carry a higher risk due to the high capital employed before income is received.

Affordable Housing

The developer 'profit' (before taxation) on the affordable housing as a percentage of the value of the affordable housing (excluding SHG). A typical figure may be in the region of 6% (the profit is less than that for the open market element of the scheme, as risks are reduced), but this is only a guide.

7.41 It is unfortunate that the above are not consistent, but it is clear that the purpose of including a developers' profit figure is not to mirror a particular business model, but to reflect the risk a developer is taking in buying a piece of land, and then expending the costs of construction before selling the property. The use of developers' profit in the context of area wide viability testing of the type required by the NPPF and CIL Regulation 14, is to reflect that level of risk.

7.42 Through the consultation process it was suggested that the profit must be calculated on Gross Development Value (GDV) as this is the 'norm'. Generally we do not agree that linking the developer's profit to GDV is reflective of risk, as the risk relates to the cost of a scheme – the cost being the money put at risk as the scheme is developed. As an example (albeit an extreme one to illustrate the point) we can take two schemes, A and B, each with a GDV £1,000,000, but scheme A has a development cost of £750,000 and scheme B a lesser cost of £500,000. All other things being equal, in A the developer stands to lose £750,000 (and make a profit of £250,000), but in B 'only' £500,000 (and make a profit of £500,000). Scheme A is therefore more risky, and it therefore follows that the developer will wish (and need) a higher return. By calculating profit on costs, the developer's return in scheme A would be £150,000 and in scheme B would be £100,000 and so reflect the risk – whereas if calculated on GDV the profits would be £200,000 in both.

7.43 Broadly there are four different approaches that could be taken:

b. To set a different rate of return on each site to reflect the risk associated with the development of that site. This would result in a lower rate on the smaller and simpler sites – such as the greenfield sites, and a higher rate on the brownfield sites.

c. To set a rate for the different types of unit produced – say 20% for market housing and 6% for affordable housing, as suggested by the HCA.

d. To set the rate relative to costs – and thus reflect risks of development.

e. To set the rate relative to the gross development value as suggested by several of the stakeholders following the consultation event.

7.44 In deciding which option to adopt it is important to note that we are not trying to re-create any particular developer's business model. Different developers will always adopt different models and have different approaches to risk.

7.45 The argument is often made that financial institutions require a 20% return on development value and if that is not shown they will not provide development funding. In the pre-Credit Crunch era there were some lenders who did take a relatively simplistic view to risk analysis but that is no longer the case. Most financial institutions now base their decisions behind providing development finance on sophisticated financial modelling that it is not possible to replicate in a study of this type. They do require the developer to demonstrate a sufficient margin, to protect them in the case of changes in prices or development costs but they will also consider a wide range of other factors, including the amount of equity the developer is contributing – both on a loan to value and loan to cost basis, the nature of development and the development risks that may arise due to demolition works or similar, the warranties offered by the professional team, whether or not the directors will provide personal guarantees and the number of pre-sold units.

7.46 This is a high level study where it is necessary and proportionate to take a relatively simplistic approach, so, rather than apply a differential return (either site by site or split between market and affordable housing) it is appropriate to make some broad assumptions. At the consultation event on the 7th February we suggested that developers' profit be calculated as 20% of total costs across all development types, affordable and market housing and non-residential development. Several representations were made that calculating profit on GDV was more appropriate – bearing in mind that this was the developer's consensus we have followed that assumption here. One consultee suggested that that the developer's profit should be calculated as 26% of Gross Development Value based on work done elsewhere.

7.47 Following that consultation process we adjusted the assumption that the profit to reflect risk from 20% on Gross Development Cost to 20% of Gross Development Value. This assumption should be considered in line with the assumption about interest rates in the previous section, where a cautious approach was taken with a relatively high interest rate, and the assumption that interest is charged on the whole of the development cost. Further consideration should be given to the contingency sum in the appraisals which is also reflects the risks.

7.48 Several representations were made suggesting that in addition to a developers' profit a further 'overhead' allowance of 5% of Gross Development Value should be made – in effect increasing the developer's profit to 25%. This was discussed at some length at the meeting on the 11th March. In this study we are not trying to replicate any specific developer's business model and whilst some in the industry may adopt such an approach we do not believe that it is appropriate to separate out that cost here. We have modelled the results on both a 20% and 25% return on GDV – although we believe 20% is an adequate 'competitive return for the developer[21].

(iv) Voids

7.49 On a scheme comprising mainly individual houses, one would normally assume only a nominal void period as the housing would not be progressed if there was no demand. In the

[21] In the Shinfield Appeal set out in Chapter 6, a 20% return was found to be appropriate.

case of apartments in blocks this flexibility is reduced. Whilst these may provide scope for early marketing, the ability to tailor construction pace to market demand is more limited.

7.50 For the purpose of the present study a three month void period is assumed for all residential developments and non-residential developments. We have given careful consideration to this assumption in connection to the commercial developments. There is very little speculative commercial development taking place so we believe that this is the appropriate assumption to make.

(v) Phasing and timetable

7.51 The appraisals are assumed to have been prepared using prices and costs at a base date of January 2013. A pre-construction period of six months is assumed for all of the sites. Each dwelling is assumed to be built over a nine month period.

7.52 The phasing programme for an individual site will reflect market take-up and would, in practice, be carefully estimated taking into account the site characteristics and, in particular, the size and the expected level of market demand. We have developed a suite of modelled assumptions to reflect site size and development type.

7.53 Sales data collected by Housebuilder Media shows that most of the national housebuilders are building over 25 units per outlet per year – with only Bovis being below this figure. In line with representations made by the development industry we have assumed a maximum, per outlet, delivery rate of 20 market units per year. On the smaller sites we have assumed much slower rates to reflect the nature of the developer that is likely to be bringing smaller sites forward. It should however be noted that the initial assumption of 30 to 35 units per year was supported by some consultees.

7.54 We believe that these are conservative and do, properly, reflect the current difficult market.

Site Acquisition and Disposal Costs

(i) Site holding costs and receipts

7.55 Each site is assumed to proceed immediately and so, other than interest on the site cost during construction, there is no allowance for holding costs, or indeed income, arising from ownership of the site.

(ii) Acquisition costs

7.56 We have taken a simplistic approach and assumed an allowance 1.5% for acquisition agents' and legal fees. Stamp duty is calculated at the prevailing rates.

(iii) Disposal costs

7.57 For the market and the affordable housing, sales and promotion and legal fees are assumed to amount to some 2.5% of receipts. For disposals of affordable housing these figures can be reduced significantly depending on the category so in fact the marketing and disposal of the affordable element is probably less expensive than this.

7.58 Following representations made through the consultation process and to reflect the current market we have increased these to 3.5%

8. Planning Policy Requirements

8.1 It is important that the appraisals are based on the policies that prevail in the areas in question and specifically on the sites set out in the Land Allocations DPD. We have set out in Chapter 2 the context to and guidance relevant to this study. The core of this project is to make an objective assessment as to the viability of the sites set out in the DPD. We have reviewed, with Council officers, the Council's Core Strategy (adopted October 2010). The Core Strategy is an adopted document and the policies within it will apply to the sites as they come forward.

Design and Construction Standards

Sustainable Development

8.2 SLDC is committed to tackling climate change and has signed the Nottingham Declaration on Climate Change. The Council is committed to tackling the causes and effects of climate change. The Council requires all housing to be built to current national standards but hopes to achieve better than this and, to that end, has developed policy CS8.7. We have reviewed the requirements of this policy and, on the whole, they can be met through design.

8.3 We have based our appraisals on Code for Sustainable Homes Level 4 (CfSH 4) and BREEAM Excellent. These are higher than the current requirements but will be introduced shortly.

Lifetimes Homes

8.4 In the light of policies CS6.2 and CS 8.7 we have assumed all new homes are built to Lifetime Homes Standard. We have assumed the cost of implementing this is £1,000 per unit[22].

8.5 There was some discussion as to whether or not this should be modelled as, in practice, the Council has shown a flexible approach when it comes to enforcement. In light of the Mid-Devon CIL Inspectors report, it was decided that this should be modelled.

Density

8.6 Policy CS 6.6 requires a minimum density of 30 dwellings per net developable hectare. We have based our modelling on typical densities for similar site types.

[22] See http://www.lifetimehomes.org.uk/pages/costs.html

Affordable Housing

8.7 The Council will seek to achieve provision for affordable housing in all suitable residential schemes (Policy CS6.3). The full policy says:

CS6.3 – Provision of affordable housing

The Council will consider the appropriateness of allocating sites in every community in the plan area in order to ensure the delivery of affordable housing to meet local need. The percentage of affordable housing to be provided on allocated sites will be dependent on local land supply, housing need and viability, including the potential for allocating sites solely for affordable housing.

Planning permission for the erection of new dwellings or conversion of existing buildings to dwellings will be permitted provided that the scheme provides local affordable housing in accordance with the following:

- *On all schemes of nine or more dwellings in the Principal/Key Service Centres, and three or more dwellings outside of these areas, no less than 35% of the total number of dwellings proposed are affordable. The Council may seek to require a higher percentage on individual sites, based on evidence of need and viability, through the preparation of development plan documents which allocate sites;*

- *The affordable housing provided is made available solely to people in housing need at an affordable cost for the life of the property. The Council will ensure that any planning permission granted is subject to appropriate conditions and/or planning obligations to secure its affordability in perpetuity;*

- *The mix and tenure of affordable housing provided reflects the identified housing needs at the time of the proposal as demonstrated in the Housing Market Assessment and waiting list information. Further targets and requirements are set out in each of the area strategy policies CS2-CS5;*

- *The affordable housing shall be mixed within the development.*

Exceptionally, a lower requirement for affordable housing will be acceptable where there is clear evidence that it would make the development unviable. Further information on the operation of the affordable housing mechanisms is included within the monitoring and implementation framework (Appendix 1).

8.8 In this study we have assumed the following:

a. 35% on sites of 9 or more units in the Principal Service Centres of Kendal and Ulverston and in the Key Service Centres of Grange-over-Sands, Milnthorpe and Kirkby Lonsdale

b. 35% on sites of 3 or more on other areas.

8.9 The policy gives some flexibility as to the type of affordable housing provided. The 35% is split into LCHO and affordable rented property as detailed in the table below. For the purpose of this study it has been assumed that there is no social rent requirement from new build. We understand that social rent and shared ownership are products that are not in high demand or popular with developers in this area and the Council would not be asking for them.

Table 8.1 Summary of Affordable Housing Tenure Requirements					
Site Size / number of units in total		EAST		WEST	
		Urban %	Rural %	Urban %	Rural %
Up to 30	LCHO	100	30	100	30
	RENT	0	70	0	70
30 plus	LCHO	50	50	50	50
	RENT	50	50	50	50

Source: SLDC (LCHO = Low cost home ownership / Discounted for sale)

8.10 The Council limits the price of discounted sale properties in the District as set out towards the end of Chapter 4 of this report.

8.11 It is important to note in this study that this policy is subject to viability testing (see the last paragraph of the policy quoted above) – although SLDC do apply this strictly and have a good record of achieving their affordable housing target – see **Appendix 9**.

8.12 In order to inform the Council's assessment we have tested a range of affordable housing requirements. In addition to the above, we have run appraisals with 0% affordable housing.

8.13 The Council is developing a policy in relation to the provision of Extra Care Housing. Some of this will be within the affordable sector. We understand that this will form part of the affordable housing provision and the council will seek to achieve this through negotiation with developers. We have not made specific allowance for this.

8.14 The detailed interpretation of the Affordable Housing Policy was discussed at the consultation on 11th March. Concern was expressed by the developers that the model works on a £/m^2 basis but the policy is written and implemented on a unit basis. This causes a distortion as, on the whole, the affordable units are substantially smaller than the market units. The typical market units are a little over 100m^2 and the typical affordable units are about 75m^2. This is illustrated in the following table:

Table 8.2 Relationship between number of affordable units and floor space					
	Proportion	Units	Size	Floor Area	% of floor area
Total Scheme		100	m^2		
Market Unit	65.00%	65	105	6,825	72.22%
Intermediate unit	10.50%	10.5	75	787.5	8.33%
Affordable Rent	24.50%	24.5	75	1,837.5	19.44%
Social Rent		0	75	0	0.00%
			Total	**9,450**	m^2

Source: HDH 2013

8.15 We have calculated, and agreed with the development industry at the consultation meeting on 11th March 2013, that as a proportion of floorspace the affordable housing target is as follows:

Table 8.3 SLDC Affordable targets as proportion of floor space (GIA)

Scheme size	Tenure		EAST		WEST	
			Urban	Rural	Urban	Rural
Up to 30	LCHO	% Units	35.0%	10.5%	35.0%	10.5%
		% Floor Space	27.8%	8.3%	27.8%	8.3%
	RENT	% Units	0.0%	24.5%	0.0%	24.5%
		% Floor Space	0.0%	19.4%	0.0%	19.4%
30 plus	LCHO	% Units	17.5%	17.5%	17.5%	17.5%
		% Floor Space	13.9%	13.9%	13.9%	13.9%
	RENT	% Units	17.5%	17.5%	17.5%	17.5%
		% Floor Space	13.9%	13.9%	13.9%	13.9%

Source: HDH 2013

8.16 We have based our analysis on the proportions of floor space shown in the table above.

Housing Mix

8.17 The Council is seeking to balance the housing market and, informed by the Strategic Housing Market Assessment, it has identified a shortfall for smaller units, as well as larger units in some areas. The Council does not plan to introduce a prescriptive policy requiring a specific mix of housing sizes and recognises that developers will determine the mix of housing to meet market demand – although it will continue to work with developers to ensure the schemes meet the demand evidenced.

8.18 We have not tested any specific requirements in terms of mix.

9. Modelled Sites

9.1 In the previous chapters we have set out the general assumptions to be inputted into the development appraisals. In this chapter we have set out the modelling. We stress that this is a high level and broad brush study that is seeking to capture the generality rather than the specific. The purpose is to establish whether the sites within the DPD are generally viable. This information will be used with the other information gathered by the Council to assess whether or not the sites are actually deliverable.

9.2 Our approach is to model 16 residential development sites that are broadly representative of the type of development that is likely to come forward in the District in the future. In addition we have run specific appraisals for a group of sites that are thought to have abnormal costs associated with their development.

Modelled Residential Development Sites

Identifying a range of sites

9.3 This study is based on modelling typical sites. In discussion with the Council it was decided that a total of 16 representative sites should be modelled.

9.4 We acknowledge that modelling cannot be totally representative, however the aim of this work is to test the viability of sites within the Land Allocations DPD rather than assess the effects of viability on specific development sites. This will enable the Council to assess whether the Development Plan is deliverable. The work is broad brush, so there are likely to be sites that will not be able to deliver the affordable housing target and CIL, indeed as set out at the start of this report, there are some sites that will be unviable even without any policy requirements from the Council (for example brownfield sites with high remediation costs), but there will also be sites that can afford more. Once CIL has been adopted, there is little scope for exemptions to be granted, however, where the affordable housing target and other policy requirements cannot be met, the developer will continue to be able to negotiate with the planning authority. The planning authority will have to weigh up the factors for and against a scheme, and the ability to deliver affordable housing will be an important factor. The modelled sites are reflective of development sites in the study area that are likely to come forward during the plan period.

9.5 The modelled sites are informed by the sites in the DPD and range in size from 1 to over 100 dwellings. The larger sites tended to be on greenfield sites.

Development assumptions

9.6 In arriving at appropriate assumptions for residential development on each site we have ensured that the built form used in our appraisals is appropriate to the current development practices. Most Council areas in which we have carried out studies such as this one display a range of development situations and corresponding variety of densities. We have developed a typology which responds to that variety, which is used to inform development assumptions for sites (actual, or potential allocations). That typology enables us to form a view about floorspace density – the amount of development, measured in net floorspace per hectare, to be accommodated upon the site. This is a key variable because the amount of floorspace which can be accommodated on a site relates directly to the residual value, and is an amount which developers will normally seek to maximise (within the constraints set by the market).

9.7 The typology uses as a base or benchmark a typical post-PPG3/PPS3 built form which would provide development at around 3,550 m^2/ha on a substantial site, or sensibly shaped smaller site. A representative housing density might be 40-45 dwellings per ha. This has become a common development format. It provides for a majority of houses but with perhaps 15-25% flats, in a mixture of two storey and two and a half to three storey form, with some rectangular emphasis to the layout. This is may well be representative over the plan period (15 years) however in the current market is substantially higher than most developers are likely consider. It is also substantially higher than the 30 dwellings/ha density policy requirement.

9.8 There could, of course be some schemes of appreciably higher density development providing largely or wholly apartments, in blocks of three storeys or higher, with development densities of 6,900 m^2/ha and dwelling densities of 100 units/ha upwards; and schemes of lower density, in sensitive rural or rural edge situations.

9.9 The density, in terms of units and floorspace, has been used to ensure appropriate development assumptions for a majority of the sites. This was presented to the stakeholders through the consultation process and there was a consensus that it was appropriate.

9.10 We have based the densities used in the site modelling on the expected density that is likely to come forward in current market conditions. We appreciate that these are different than those used in the SHLAA modelling that was undertaken three years ago, however there was agreement amongst the stakeholders that the modelling was appropriate.

Table 9.1 Typology of development form

Category title	Density		Built form characteristics
	Floorspace net m^2/ha (sqft/acre)	Dwellings (typical units/ha)	
Lower density	2,875 (12,500)	20-33	Edge of settlement, less pressured location. Mostly 2 storey, largely 3 & 4 bed detached houses with garages.
Base	**3,550 (15,500)**	**40-45**	**Mixture of 2 & 2.5/3 storey houses, many terraced; some (15-25%) flats, limited garaging.**
Urban	4,480 (19,500)	50	30-35% flats, and/or fewer 2 storey units than base
High	6,900 (30,000)	100+	Flats in small blocks on 3 storeys, parking spaces
Very high	11,500 (50,000)	150+	Flats in larger blocks on 4-6 storeys, parking limited or underground

Source: HDH 2013

9.11 The ratio of gross to net areas used in the in the DPD are derived from those used in the SHLAA which are as follows:

a. Up to 0.4ha 100%

b. 0.4 to 2.0 ha 90%

c. 2 to 10 ha 75%

d. Over 10 ha 50%

9.12 Core Strategy Policy CS6.6 seeks an average density of 30 dwellings per hectare, with higher densities in town centres and locations with good public transport and lower densities in areas where there are environmental constraints.

9.13 The above typology was used to develop model development assumptions. We have set out the main characteristics of the modelled sites in Table 9.2 and Table 9.3 below.

9.14 It is important to note that these are modelled sites and not actual sites. These modelled typologies have been informed by the sites included in the Land Allocations DPD, both in terms of scale and location. A proportion of the housing to come forward over the plan period will be on smaller sites so four smaller sites have been included.

Table 9.2 Summary of modelled sites			
Site	Details		Notes
1 Urban Edge 1 Kendal	Units	168	Mix of family housing on greenfield site. The net developable area is 5.25 ha and the gross area 7.5 ha (30% open space). Good road access etc.
	Area (Gross ha)	7.5	
	Density (units/ha)	32	
2 Urban Edge 2 Kendal	Units	203	Mix of family housing with 9 flats giving slightly higher density than site 1. Majority of the site as detached and semi-detached homes with garages and gardens. Abnormal costs of £750,000. The net developable area is 5.8 ha and the gross area 8.33 ha (30% open space).
	Area (Gross ha)	8.33	
	Density (units/ha)	35	
3 Office re-dev Kendal	Units	13	Roadside site with good road access in built up area. Demotion of existing office building required – allow £200,000. Mix of flats, terrace and 2 semis.
	Area (Gross ha)	0.31	
	Density (units/ha)	41	
4 Estate Infill Kendal	Units	12	Roadside site with good road access in housing estate. Currently scrubland sloping to road in need of earth moving and foundations – allow £100,000 abnormals. Mix of terrace and semis. Gross area 0.43 ha and net area 0.3 ha.
	Area (Gross ha)	0.43	
	Density (units/ha)	40	
5 LSC infill Arnside	Units	35	1.1 ha site on urban edge. Family housing as mix of terrace and semis. Direct road access.
	Area (Gross ha)	1.1	
	Density (units/ha)	35	
6 KSC infill Grange	Units	45	2.0 ha site on urban edge. Family housing as mix of terrace and semis and 9 flats.
	Area (Gross ha)	2.0	
	Density (units/ha)	45	
7 Cleared Urban Ulverston	Units	12	A mix of 1, 2 and 3 bedroom flats built over 4 stories. Infill site in need of clearance – allow £150,000.
	Area (Gross ha)	0.25	
	Density (units/ha)	48	
8 KSC Edge Milnthorpe	Units	76	Mix of family housing on greenfield site. The net developable area is 2.5 ha and the gross area 3.8 ha (30% open space). Good road access etc.
	Area (Gross ha)	3.8	
	Density (units/ha)	30	
9 LSC Edge Allithwaite	Units	24	Mix of family housing on greenfield site on village edge. 2 and 3 bed semi and terraced houses with 5 larger detached units. 1ha site (25% open space)
	Area (Gross ha)	1.00	
	Density (units/ha)	32	
10 LSC Edge Endmoor	Units	15	A constrained site with a mix of terraced and semi-detached homes, and a few larger detached 4 units. 0.7ha site with 0.5 ha developable.
	Area (Gross ha)	0.7	
	Density (units/ha)	15	

Table 9.2 Summary of modelled sites (continued)			
11 LSC Paddock	Units	21	A mix of small 2 and 3 bed units in pairs and as detached. 25% open space.
Penny Bridge	Area (Gross ha)	0.93	
	Density (units/ha)	30	
12 Small village	Units	4	2 pairs of 3 bed semi-detached homes on a cleared village or town site. Allowance for abnormal costs. £50,000
Lune Valley	Area (Gross ha)	0.2	
	Density (units/ha)	27	
13 Ex garage site	Units	5	A disused garage site in roadside location. 3 detached homes, two 3 and one 4 bed and a pair of 2 bedroom semi-detached. Clearance etc £150,000
Central SLDC	Area (Gross ha)	0.20	
	Density (units/ha)	25	
14 Village Infill	Units	10	Mix of detached and semi-detached homes on sensitive site
Cartmel Peninsula	Area (Gross ha)	0.8	
	Density (units/ha)	25	
15 Small Village Site	Units	3	A pair of semi-detached and single unit on a small infill type site.
Eastern area	Area (Gross ha)	0.3	
	Density (units/ha)	10	
16 Village House	Units	1	A single 5 bedroom detached house with its own highway access. Large site.
	Area (Gross ha)	1	
	Density (units/ha)	10	

Source: HDH 2013. Note density calculated on net developable area

9.15 The gross and net areas and the site densities are summarised below.

Table 9.3 Modelled Site development assumptions									
Number	Site		Units	Area		Units/ net ha	Average Unit	Total GIA	Density
				Gross ha	Net Ha		m^2		m^2/ha
1	Urban Edge 1	Kendal	168	7.50	5.25	32.00	81.39	13,674	2,605
2	Urban Edge 2	Kendal	203	8.33	5.80	35.00	85.50	17,357	2,993
3	Office re-development	Kendal	13	0.31	0.31	41.94	70.38	915	2,952
4	Estate Infill	Kendal	12	0.43	0.30	40.00	78.42	941	3,137
5	LSC Infill	Arnside	35	1.10	1.00	35.00	76.66	2,683	2,683
6	KSC Infill	Grange	45	2.00	1.50	30.00	77.40	3,483	2,322
7	Cleared Urban	Ulverston	12	0.25	0.25	48.00	82.00	984	3,936
8	KSC Urban Edge	Milnthorpe	76	3.80	2.50	30.40	90.49	6,877	2,751
9	LSC Edge	Allithwaite	24	1.00	0.75	32.00	93.50	2,244	2,992
10	LSC Edge	Endmoor	15	0.70	0.50	30.00	81.80	1,227	2,454
11	LSC Paddock	Penny Bridge	21	0.93	0.70	30.00	88.71	1,863	2,661
12	Small Village	Lune Valley	4	0.20	0.15	26.67	83.50	334	2,227
13	Ex Garage Site	Central SLDC	5	0.20	0.20	25.00	84.90	425	2,123
14	Village Infill	Cartmel Peninsula	10	0.80	0.40	25.00	96.60	966	2,415
15	Village Infill	Eastern Area	3	0.30	0.30	10.00	83.00	249	830
16	Rural House	Rural west	1	1.00	1.00	1.00	130.00	130	130
			647	**28.85**	**20.91**	**30.94**	**84.01**	**54,352**	**2,599**

Source: HDH 2013. Note: Floorspace density figures are rounded

9.16 About 40% of the housing within the DPD will come forward on the sites types 1 and 2 being the edge of Kendal and between 40% and 45% of the housing on the sites in the Local and Key Service centres (LSC and KSC). The 4 smallest sites are below the size threshold for sites within the DPD, however have been included, as windfalls will continue to come forward and, in due course, be subject to CIL. About 5% the planned housing is on brownfield sites that fall within the types 3, 7 and 13. In addition approximately 13% of the housing within the DPD is on the South Ulverston Site which has been modelled separately.

9.17 The modelling does not exactly follow the density assumptions used in the DPD or the policy as the modelling is based on the sites within the DPD. The assumptions were presented to the stakeholders through the consultation process and there was a consensus that the amount of development – expressed as m^2/ha was appropriate and representative of the type of development coming forward in South Lakeland.

Specific Development Sites

9.18 We have assessed specific sites. These represent both housing and employment sites and were selected either following concerns raises at the start of the Land Allocations DPD hearing or the Council wanted to make sure that they have evidence on viability/deliverability on sites with suspected abnormal costs before we return to examination). Full details of these are set out in **Appendix 3**.

Table 9.4 Specific Sites for Viability Testing				
DPD Reference	Site	Location	Gross ha	Proposed Uses
E4M	Land at Scroggs Wood	Kendal	17.9	Offices and Industrial
M2M	Land East of Burton Road	Kendal	6.52	Offices and Industrial
R121	East of Castle Green Road	Kendal	4.11	Residential
E20/E33M	Land north of Gatebeck Lane	Endmoor	3.13	Industrial
E13M	Land adjacent to Mainline Business Park	Milnthorpe	8.07	Offices
M683sM-mod	Land south of Quarry Lane	Storth	1.58	Residential
E30/M26	Land at Canal Head, to the rear of Booth's off Next Ness Lane	Ulverston	6.4	Industrial
M11M - Mod	Land at Lightburn Road	Ulverston	3.1	Offices
M28	Land at Canal Head Note – only residential use has been modelled	Ulverston	3.93	Mixed - include residential (1.93ha gross) and ,heritage, leisure and tourism (2ha gross)
South Ulverston comprising: R690, R691ulv, R126M, RN184, RN234#, part R242 R697, part R242, RN131M, RN141#,RN321#, RN284#	 West Croftlands East Croftlands Gascow Farm	Ulverston	44.35	Residential

Source: SLDC

9.19 We have set out details of each site in **Appendix 3**. In this we have combined the three sites to the south of Ulverston being East and West Croftlands and Gascow Farm and treated these as one.

9.20 We have included a part of the residential element of the Canal Head site at Ulverston in our modelling for illustrative purposes. This is a small part of a much larger scheme and is unlikely to come forward in isolation. The Council have prepared a master-plan for the whole site and whilst this is somewhat historic (2005) we have updated the costs contained in that report (through indexing in line with BCIS) and attributed current values to those parts of the scheme that are likely to generate income. This is set out in more detail in **Appendix 3**.

Table 9.5 Specific Site development assumptions - Residential

Number	Site		Units	Area		Units/ha	Average Unit	Total GIA	Density
				Gross ha	Net Ha		m^2		m^2/ha
1	Castle Green Road	Kendal	60	4.11	3.08	19.48	83.42	5,005	1,625
2	Quarry Lane	Storth	42	1.58	1.42	29.58	83.45	3,505	2,468
3	South Ulverston	Ulverston	747	44.35	22.18	19.36	84.01	62,759	1,627
4	Ulverston Canal Head	Ulverston	86	1.93	1.93	44.56	79.58	6,844	3,546
			935	**51.97**	**45.01**	**20.77**	**83.54**	**78,113**	**1,735**

Source: HDH 2013. Note: Floorspace density figures are rounded

9.21 Approximately 13% of the housing within the DPD is on the South Ulverston Site.

9.22 In order to tailor the appraisals to the local circumstances we have applied the geographical appropriate affordable housing targets and prices as shown below.

Residential Price Assumptions

9.23 The price of units is one of the most significant inputs into the appraisals. This applies not just to the market homes but also the affordable uses (intermediate, social rented and affordable rented). Informed by the findings set out in Chapter 4 we have assumed the following prices. These reflect the comments of the stakeholders and the developers at the meeting on the 11th March agreed that they were reflective and appropriate to the current market.

Table 9.6 Price assumptions

Number	Site		Units	Market	LCHO	Affordable Rent
				£/m2	£/m2	£/m2
1	Urban Edge 1	Kendal	144	2,300	1,465	1,137
2	Urban Edge 2	Kendal	175	2,250	1,465	1,125
3	Office re-development	Kendal	13	2,150	1,465	1,075
4	Estate Infill	Kendal	12	2,300	1,465	1,150
5	LSC Infill	Arnside	35	2,000	1,465	1,000
6	LSC Infill	Grange	45	2,350	1,465	1,175
7	Cleared Urban	Ulverston	12	1,950	1,465	975
8	KSC Urban Edge	Milnthorpe	76	2,150	1,465	1,075
9	LSC Edge	Allithwaite	24	2,350	1,465	1,175
10	LSC Edge	Endmoor	15	2,100	1,465	1,050
11	LSC Paddock	Penny Bridge	21	2,300	1,465	1,150
12	Small Village	Lune Valley	4	3,000	1,465	1,500
13	Ex Garage Site	Central SLDC	5	2,200	1,465	1,100
14	Village Infill	Cartmel Peninsula	10	2,350	1,465	1,175
15	Village Infill	Eastern Area	3	2,750	1,465	1,375
16	Rural House	Rural west	1	3,000	1,465	1,500

Source: HDH 2013

Table 9.7 Price assumptions

Number	Site		Units	Market	LCHO	Affordable Rent
				£/m2	£/m2	£/m2
1	Castle Green Road	Kendal	60	2550	1465	1137
2	Quarry Lane	Storth	42	2300	1465	1050
3	South Ulverston	Ulverston	747	1975	1465	1050
4	Ulverston Canal Head	Ulverston	86	1990	1465	1050

Source: HDH 2013

9.24 Several consultees suggested that a more fine grained approach should be taken with different house types being attributed different values – even that all sites should be looked at separately. This is a high level study with broad modelling based on a density of development (as meter squared per hectare) rather than a specific mix and type of development in terms of house size. The above assumptions are based on a broad assessment that is appropriate for a high level study of this type. Within any particular scheme there will be wide range of values dependant on the specific nature of each unit some units will be worth more and some less than the above prices.

Non-Residential Sites

9.25 For the purpose of this study we have assessed a number of development types. In considering the types of development to assess we have sought to include those types of development that are likely to come forward in the short to medium term. The predominant type of development will be residential development. This is important as the NPPF requires the charging authority to use '*appropriate* *available* *evidence*'[23].

9.26 We have therefore based our modelling on the following development types:

i. **Large offices**. These are more than 250 m^2, will be of steel frame construction, be over several floors and will be located on larger business parks. Typical larger units in the County are around 500 m^2 – we will use this as the basis of our modelling.

ii. **Small offices**. Modern offices of less than 250 m^2. These will normally be built of block and brick, will be of an open design, and be on a market town edge or in a more rural situation. Typical small office units in the County are around 150 m^2 – we will use this as the basis of our modelling.

iii. **Large industrial**. Modern industrial units of over 500 m^2. There is relatively little new space being constructed. Typical larger units in the District are around 1,500 m^2 – we will use this as the basis of our modelling.

iv. **Small industrial**. Modern industrial units of less than 500 m^2. These will normally be on a small business park and be of simple steel frame construction, the walls will be of block work and insulated cladding, and there will be a small office area. Typical small units in the area are around 200 m^2 – we will use this as the basis of our modelling.

v. **Distribution**. A modern steel framed building of 5,000m^2 on a site of 1ha.

9.27 In developing these typologies, we have made assumptions about the site coverage and density of development on the sites. We have assumed 66% coverage on the large industrial sites, and 60% coverage on the small industrial and large offices, on the small

[23] As does CIL Regulations, and the CIL Guidance.

offices we have assumed 50% coverage. On the offices we have assumed two story construction. We have not looked at the plethora of other types of commercial and employment development beyond office and industrial/storage uses in this study.

9.28 Several of the specific sites appraised are for non-residential uses. The details of these are set out in **Appendix 3**.

9.29 We have been asked to consider the business park element (i.e. the new build) of the Canal Head site at Ulverston. This is a small part of the larger master-planned regeneration project for the whole of the Canal Head area. Whilst the marster-plan is somewhat historic (2005) we have taken the relevant elements of the master-plan updated the costs (through indexing in line with BCIS) and attributed current values to the new business space. This is set out in more detail in **Appendix 3**.

10. Residential Appraisal Results

10.1 At the start of this chapter it is important to stress that the results of the appraisals do not, in themselves, determine the Council's land allocations. The study is testing the Council's Land Allocation DPD and reflects the Council's policies in the adopted in the Core Strategy. The results of this study are one of a number of factors that the Council will consider, including the need for infrastructure, other available evidence, such as the Council's track record in delivering affordable housing (see **Appendix 9**) and collecting payments under s106, and, importantly, the results of the consultation process with developers. The purpose of the appraisals is to provide an indication of the viability of different types of sites in different areas under different scenarios. In due course, the Council will have to take a view as to whether or not to proceed with the Land Allocations DPD.

10.2 The appraisals use the residual valuation approach – that is, they are designed to assess the value of the site after taking into account the costs of development, the likely income from sales and/or rents and an appropriate amount of developers' profit. The payment would represent the sum paid in a single tranche on the acquisition of a site. In order for the proposed development to be described as viable, it is necessary for this value to exceed the value from an alternative use. We have discussed this in detail in Chapter 6.

10.3 In order to assist the Council and to inform the consultation process, we have run several sets of appraisals. The appraisals main output is the Residual Value. The Residual Value is calculated using the formula set out in Chapter 2 above.

10.4 The initial appraisals are based on the assumptions set out in the previous chapters of this report, including the various affordable housing requirements set out in the Council's policies – with the base being to CfSH Level 4. We have run further sets of appraisals assuming no provision of affordable housing and then higher levels of affordable housing, as this will be useful in helping the Council to understand the sensitivity of viability to the affordable housing target.

10.5 Development appraisals are also sensitive to changes in price so appraisals have been run with a various changes in the cost of construction and an increase and decrease in prices.

10.6 In calculating the Residual Value we have assumed that the developer makes a s106 contribution in line with the current norms. We have then considered a number of different levels informed by the emerging Cumbria County Council Developer Contributions proposals.

10.7 As set out above, for each development type we have calculated the Residual Value. In the tables in this chapter we have colour coded the results using a simple traffic light system:

a. **Green** **Viable** – where the Residual Value exceeds the Existing Use Value plus the appropriate uplift to provide a competitive return for the landowner.

b. **Amber** **Marginal** – where the Residual Value exceeds the Existing Use Value, but not the Existing Use Value plus appropriate uplift to provide a competitive return for the landowner. These sites should not be considered as viable as it is unlikely that the land would be made available to a developer at this level.

c. **Red** **Non-viable** – where the Residual Value does not exceed the Existing Use Value.

Financial appraisal approach and assumptions

10.8 On the basis of the assumptions set out in the earlier chapters, we prepared financial appraisals for each of the modelled residential sites using a bespoke spreadsheet-based financial analysis package.

10.9 Our appraisals considered various options in the context of the Adopted Core Strategy.

Appraisal results

10.10 We produced financial appraisals based on the build costs, abnormal costs, and infrastructure costs and financial assumptions for the different options. The detailed appraisal base results, for the affordable housing targets, are set out in the attached **Appendix 7**.

Base Appraisals – full current policy requirements

10.11 These initial appraisals are based on the base options:

a.	Affordable Housing	35% with mix as required by location and calculated as set out in Table 8.3 above.
b.	Environmental Standards	Building Regulations (Part L), CfSH 4 and Lifetime Homes.
c.	CIL and s106	Pre CIL – £1,500 per unit (market and affordable).
d.	Abnormals	As known.
e.	Developers' Return	20% of GDV.

10.12 The site at Quarry Lane, Storth is subject to third party access arrangements. In this report we have modelled this site on the basis that the owners will co-operate and follow the Stokes v Cambridge principles set out at the end of Chapter 6 above.

10.13 The following table shows the Residual Values for the residential sites:

Table 10.1 Residual Values – Base Appraisals

			Area		Units	Residual Value		
			Gross ha	Net ha		£/ha Gross	£/ha Net	£/site
Site 1	Urban Edge 1	Kendal	7.5	5.25	168	711,976	1,017,109	5,339,823
Site 2	Urban Edge 2	Kendal	8.33	5.8	203	686,726	986,281	5,720,430
Site 3	Office re-development	Kendal	0.31	0.31	13	272,991	272,991	84,627
Site 4	Estate Infill	Kendal	0.43	0.3	12	878,002	1,258,469	377,541
Site 5	LSC Infill	Arnside	1.1	1	35	685,556	754,112	754,112
Site 6	KSC Infill	Grange	2	1.5	45	662,150	882,866	1,324,299
Site 7	Cleared Urban	Ulverston	0.25	0.25	12	43,821	43,821	10,955
Site 8	KSC Urban Edge	Milnthorpe	3.8	2.5	76	597,851	908,733	2,271,833
Site 9	LSC Edge	Allithwaite	1	0.75	24	980,886	1,307,848	980,886
Site 10	LSC Edge	Endmoor	0.7	0.5	15	635,113	889,158	444,579
Site 11	LSC Paddock	Penny Bridge	0.93	0.7	21	880,333	1,169,586	818,710
Site 12	Small Village	Lune Valley	0.2	0.15	4	1,464,153	1,952,203	292,831
Site 13	Ex Garage Site	Central SLDC	0.2	0.2	5	103,507	103,507	20,701
Site 14	Village Infill	Cartmel Peninsula	0.8	0.4	10	528,033	1,056,066	422,426
Site 15	Village Infill	Eastern Area	0.3	0.3	3	552,018	552,018	165,605
Site 16	Rural House	Rural west	1	1	1	75,454	75,454	75,454
	Castle Green Road	Kendal	4.11	3.08	60	563,256	751,618	2,314,982
	Quarry Lane	Storth	1.58	1.42	42	655,274	729,108	1,035,333
	South Ulverston	Ulverston	44.35	22.18	747	261,138	522,158	11,581,459
	Ulverston Canal Head	Ulverston	1.93	1.93	86	495,210	495,210	955,755

Source: HDH 2013

10.14 The residual value on all sites is positive indicating a positive position in the current market. Three of the 20 sites generate a Residual Value in excess of £1,250,000/net ha (£500,000/net acre) and a further three have values above £1,000,000/net ha (£400,000/net acre). Nine sites fall in the range of £1,000,000/net ha (£400,000/net acre) to £500,000/ net ha (£200,000/net acre). The remaining five sites generate a Residual Value of less than £500,000/net ha (£200,000/net acre).

10.15 The Ulverston Canal Head site forms part of a larger scheme that is discussed further at the end of this Chapter.

10.16 The Residual Value is an important figure, but on its own does not indicate whether or not a site is viable. During the consultation process there was not an agreement as to when a site was and was not viable and as discussed in Chapter 6 a number of different suggestions were made. Whilst there was an agreement with regard to the methodology and the assumptions used in this report there was not agreement as to how viability may be assessed and what the viability threshold should be. Again we stress that the lack of agreement was not just between the Council and stakeholders – it was also amongst the stakeholders. We have considered some of the alternatives suggested below. We have used the modelling in Table 10.2 as the base appraisals for the purpose of analysis.

Higher Developer's Return, 25% of GDV

10.17 Early on in the consultation process it was agreed that a 20% developers' return, calculated on GDV, was a reasonable assumption. Towards the end of the process a case was made that a further allowance of 5% of GDV should be made to cover the developers' overheads. We do not believe that this is necessary as the costs of running the developers' business (i.e. the overhead) is payable out the Gross Profit made from development. The developers' profit/return is not included to exactly replicate a particular developers' business model – but is an allowance in this high level testing to reflect the risk of undertaking the project. The amount of profit and the requirements of any lending institution will depend on that business' circumstances and a wide range of factors.

10.18 To be able to consider the impact of a higher margin to reflect risk, a further set of appraisals has been run with a 25% developers' profit.

Table 10.2 Residual Values – Base Appraisals – 25% Developers' Profit

			Area		Units	Residual Value		
			Gross ha	Net ha		£/ha Gross	£/ha Net	£/site
Site 1	Urban Edge 1	Kendal	7.5	5.25	168	581,761	831,087	4,363,206
Site 2	Urban Edge 2	Kendal	8.33	5.8	203	538,027	772,718	4,481,764
Site 3	Office re-development	Kendal	0.31	0.31	13	30,763	30,763	9,536
Site 4	Estate Infill	Kendal	0.43	0.3	12	689,540	988,341	296,502
Site 5	LSC Infill	Arnside	1.1	1	35	514,244	565,668	565,668
Site 6	KSC Infill	Grange	2	1.5	45	521,147	694,863	1,042,295
Site 7	Cleared Urban	Ulverston	0.25	0.25	12	-262,517	-262,517	-65,629
Site 8	KSC Urban Edge	Milnthorpe	3.8	2.5	76	468,769	712,529	1,781,321
Site 9	LSC Edge	Allithwaite	1	0.75	24	795,270	1,060,360	795,270
Site 10	LSC Edge	Endmoor	0.7	0.5	15	502,149	703,008	351,504
Site 11	LSC Paddock	Penny Bridge	0.93	0.7	21	723,120	960,717	672,502
Site 12	Small Village	Lune Valley	0.2	0.15	4	1,258,464	1,677,952	251,693
Site 13	Ex Garage Site	Central SLDC	0.2	0.2	5	-73,964	-73,964	-14,793
Site 14	Village Infill	Cartmel Peninsula	0.8	0.4	10	427,197	854,394	341,758
Site 15	Village Infill	Eastern Area	0.3	0.3	3	455,105	455,105	136,532
Site 16	Rural House	Rural west	1	1	1	58,142	58,142	58,142
	Castle Green Road	Kendal	4.11	3.08	60	460,988	615,149	1,894,660
	Quarry Lane	Storth	1.58	1.42	42	483,804	538,318	764,411
	South Ulverston	Ulverston	44.35	38.58	747	171,770	343,462	7,617,995
	Ulverston Canal Head	Ulverston	1.93	1.93	86	259,067	259,067	500,000

Source: HDH 2013

10.19 The residual value on but two all sites is positive but the Residual value has been substantially depressed. One of the 20 sites generate a Residual Value in excess of £1,250,000/net ha (£500,000/net acre) and a further one has values above £1,000,000/net ha (£400,000/net acre). Ten sites now fall in the range of £500,000/ net ha (£200,000/net acre to £1,000,000/net ha (£400,000/net acre). Of the remaining six sites, four generate a positive Residual Value of less than £500,000/net ha (£200,000/net acre) – and two are not viable.

10.20 In Chapter 6 we have set out various aspects of the Shinfield appeal decision. In that appeal the inspector said about Developer's Profit:

43. The parties were agreed that costs should be assessed at 25% of costs or 20% of gross development value (GDV). The parties disagreed in respect of the profit required in respect of the affordable housing element of the development with the Council suggesting that the figure for this should be reduced to 6%. This does not greatly affect the appellants' costs, as the affordable housing element is 2%, but it does impact rather more upon the Council's calculations.

44. The appellants supported their calculations by providing letters and emails from six national housebuilders who set out their net profit margin targets for residential developments. The figures ranged from a minimum of 17% to 28%, with the usual target being in the range 20-25%. Those that differentiated between market and affordable housing in their correspondence did not set different profit margins. Due to the level and nature of the supporting evidence, I give great weight it. I conclude that the national housebuilders' figures are to be preferred and that a figure of 20% of GDV, which is at the lower end of the range, is reasonable.

10.21 The Shinfield decision was considering viability at a site specific level rather than for a Land Allocation DPD, however the principles remain the same. In the remainder of this report we have followed the 20% of GDV assumption – an assumption that is consistent with Shinfield.

Viability Threshold of £1,000,000/ha

10.22 It was suggested that for sites to be made available, £1,000,000 /ha (£400,000/acre) was the minimum price that most landowners would accept. This was not a universal position from the stakeholders but one that was strongly put. We have compared the Residual Value to this threshold in the following table illustrating which site types are viable. We have included a range of Affordable Housing Targets and based the appraisals, as above, on the following:

a.	Affordable Housing	35% with mix as required by location and calculated as set out in Table 8.3 above.
b.	Environmental Standards	Building Regulations (Part L), CfSH 4 and Lifetime Homes.
c.	CIL and s106	Pre CIL – £1,500 per unit (market and affordable).
d.	Abnormals	As known.
e.	Developers' Return	20% of GDV.

Table 10.3 Residual Value compared to £1,000,000/ha Viability Threshold (£/net ha)

			Alternative Land Value	Viability Threshold	Affordable %				
					0%	25%	30%	**35%**	40%
Site 1	Urban Edge 1	Kendal	25,000	1,000,000	1,443,027	1,148,255	1,083,908	**1,017,109**	948,778
Site 2	Urban Edge 2	Kendal	25,000	1,000,000	1,455,240	1,130,680	1,059,830	**986,281**	911,045
Site 3	Office re-development	Kendal	400,000	1,000,000	732,148	412,529	346,134	**272,991**	198,171
Site 4	Estate Infill	Kendal	50,000	1,000,000	1,716,295	1,404,668	1,333,530	**1,258,469**	1,182,385
Site 5	LSC Infill	Arnside	50,000	1,000,000	1,089,497	860,561	808,331	**754,112**	698,649
Site 6	LSC Infill	Grange	50,000	1,000,000	1,315,092	1,015,954	950,654	**882,866**	813,524
Site 7	Cleared Urban	Ulverston	300,000	1,000,000	399,698	153,528	100,147	**43,821**	-13,273
Site 8	KSC Urban Edge	Milnthorpe	25,000	1,000,000	1,319,627	1,034,413	971,956	**908,733**	841,158
Site 9	LSC Edge	Allithwaite	50,000	1,000,000	1,879,318	1,474,114	1,385,383	**1,307,848**	1,210,926
Site 10	LSC Edge	Endmoor	50,000	1,000,000	1,266,331	1,000,000	949,065	**889,158**	825,151
Site 11	LSC Paddock	Penny Bridge	50,000	1,000,000	1,648,636	1,320,890	1,245,698	**1,169,586**	1,088,227
Site 12	Small Village	Lune Valley	50,000	1,000,000	1,952,203	1,952,203	1,952,203	**1,952,203**	1,952,203
Site 13	Ex Garage Site	Central SLDC	400,000	1,000,000	457,674	212,560	159,053	**103,507**	46,688
Site 14	Village Infill	Cartmel Peninsula	50,000	1,000,000	1,522,498	1,203,186	1,130,073	**1,056,066**	976,954
Site 15	Village Infill	Eastern Area	50,000	1,000,000	552,018	552,018	552,018	**552,018**	552,018
Site 16	Rural House	Rural west	50,000	1,000,000	75,454	75,454	75,454	**75,454**	75,454
	Castle Green Road	Kendal	25,000	1,000,000	1,098,652	858,474	806,045	**751,618**	695,942
	Quarry Lane	Storth	25,000	1,000,000	1,175,868	866,671	799,175	**729,108**	663,665
	South Ulverston	Ulverston	25,000	1,000,000	852,535	623,926	573,994	**522,158**	469,132
	Ulverston Canal Head	Ulverston	300,000	1,000,000	928,748	625,484	559,283	**495,210**	424,244

Source: HDH 2013

10.23 On this basis, at the current affordable housing target of 35%, just six sites are viable. The majority of the sites do generate a very substantial Residual Value, but not sufficient to exceed £1,000,000/ha. On this basis the Council can have no confidence of the ability to deliver the housing set out in the DPD. It is however important to note that under this assumption, that the three red sites are 3,7 and 13 being the brownfield sites that represent about 5% of the units in the DPD. Of the sites that are viable, the site types represent about 40% of the housing (units) that are included within the DPD.

10.24 We do not believe that the £1,000,000/ha threshold is reflective of the adopted policies in the 2010 Core Strategy or the downturn, nor for that matter the imminent introduction of CIL[24]. We believe that the case made by the representatives of the industry was aspirational rather than realistic. The RICS Guidance is clear that careful reference needs to be made as to the requirements of the existing (i.e. the Core Strategy) and emerging (i.e. CIL) policies. We have given little weight to this aspiration – although we have no doubt that some landowners will not make their land available at a price that is less than even their most optimistic expectations.

Viability Threshold. 20% Uplift plus £400,000/ha for greenfield sites

10.25 The viability threshold initially suggested to stakeholders was the existing use value plus 20%, plus a further £250,000/ha on greenfield sites. This generates land values, on greenfield sites, of over ten times the existing use value. There was no agreement that this was a 'competitive return' in the context of the NPPF, and the case was strongly made that if policy was developed on this basis that land would not come forward.

10.26 Through the stakeholder process a higher figure emerged, calculated as existing use value plus 20% plus a further £400,000/ha on greenfield sites. The results on this table are shown below – all other matters remaining as set out in the table above.

[24] In his report to the Greater Norwich Development Partnership – for Broadland District Council, Norwich City Council and South Norfolk Council CIL Examiner Keith Holland BA (Hons) Dip TP, MRTPI ARICS suggested that CIL may give rise to a 25% fall in land prices:

9. Bearing in mind that the cost of CIL needs to largely come out of the land value, it is necessary to establish a threshold land value i.e. the value at which a typical willing landowner is likely to release land for development. Based on market experience in the Norwich area the Councils' viability work assumed that a landowner would expect to receive at least 75% of the benchmark value. Obviously what individual land owners will accept for their land is very variable and often depends on their financial circumstances. However in the absence of any contrary evidence it is reasonable to see a 25% reduction in benchmark values as the maximum that should be used in calculating a threshold land value.

Table 10.4 Residual Value compared to 20% + £400,000/ha Uplift Viability Threshold (£/net ha)

			Alternative Land Value	Viability Threshold	Affordable %				
					0%	25%	30%	**35%**	40%
Site 1	Urban Edge 1	Kendal	25,000	430,000	1,443,027	1,148,255	1,083,908	**1,017,109**	948,778
Site 2	Urban Edge 2	Kendal	25,000	430,000	1,455,240	1,130,680	1,059,830	**986,281**	911,045
Site 3	Office re-development	Kendal	400,000	480,000	732,148	412,529	346,134	**272,991**	198,171
Site 4	Estate Infill	Kendal	50,000	460,000	1,716,295	1,404,668	1,333,530	**1,258,469**	1,182,385
Site 5	LSC Infill	Arnside	50,000	460,000	1,089,497	860,561	808,331	**754,112**	698,649
Site 6	LSC Infill	Grange	50,000	460,000	1,315,092	1,015,954	950,654	**882,866**	813,524
Site 7	Cleared Urban	Ulverston	300,000	360,000	399,698	153,528	100,147	**43,821**	-13,273
Site 8	KSC Urban Edge	Milnthorpe	25,000	430,000	1,319,627	1,034,413	971,956	**908,733**	841,158
Site 9	LSC Edge	Allithwaite	50,000	460,000	1,879,318	1,474,114	1,385,383	**1,307,848**	1,210,926
Site 10	LSC Edge	Endmoor	50,000	460,000	1,266,331	1,000,000	949,065	**889,158**	825,151
Site 11	LSC Paddock	Penny Bridge	50,000	460,000	1,648,636	1,320,890	1,245,698	**1,169,586**	1,088,227
Site 12	Small Village	Lune Valley	50,000	460,000	1,952,203	1,952,203	1,952,203	**1,952,203**	1,952,203
Site 13	Ex Garage Site	Central SLDC	400,000	480,000	457,674	212,560	159,053	**103,507**	46,688
Site 14	Village Infill	Cartmel Peninsula	50,000	460,000	1,522,498	1,203,186	1,130,073	**1,056,066**	976,954
Site 15	Village Infill	Eastern Area	50,000	460,000	552,018	552,018	552,018	**552,018**	552,018
Site 16	Rural House	Rural west	50,000	310,000	75,454	75,454	75,454	**75,454**	75,454
	Castle Green Road	Kendal	25,000	430,000	1,098,652	858,474	806,045	**751,618**	695,942
	Quarry Lane	Storth	25,000	430,000	1,175,868	866,671	799,175	**729,108**	663,665
	South Ulverston	Ulverston	25,000	430,000	852,535	623,926	573,994	**522,158**	469,132
	Ulverston Canal Head	Ulverston	300,000	360,000	928,748	625,484	559,283	**495,210**	424,244

Source: HDH 2013

10.27 On this basis (including the 35% affordable housing requirement) the greenfield sites that represent about 95% of the units planned for under the DPD are all viable but the 5% or so on brownfield sites are not. This is very much as we would expect from our local knowledge and the reality on the ground in SLDC (and supported by the Council's s106/affordable housing record as set out in Appendix 9). Little development is happening in the urban areas and on the brownfield sites, but there is some activity on the greenfield sites where planning applications and enquiries are being processed.

10.28 The large site to the south of Ulverston that will deliver about 13% of the dwellings under the plan is also shown as viable.

10.29 The modelled residential element of the Canal Head site at Ulverston is shown as viable. This is the case, however, based on the current market we would not expect it to come forward in the foreseeable future, as flats in secondary locations (away from the large regional city centres), are not only difficult for a developer to finance, but also the mortgage market remains very constrained. We understand there are significant site assembly problems associated with this site that means it is unlikely to come forward in the foreseeable future.

10.30 Affordable Housing is a high priority in the District and it is interesting to note the impact of different levels of affordable housing modelled. On this basis it can be seen that the Affordable Housing Target has not been set at the limit of viability and that even with a 40% requirement the majority of units under the DPD would be deliverable.

10.31 These results are consistent with what the Council is achieving through the development management process. Appendix 9 includes a summary of what the council has secured on sites recently. In some cases this has been more than the 35% policy requirement. In spite of this the Council does recognise that Affordable Housing is a very significant cost to the developer. To ensure that sites can continue to delivered it has taken the pragmatic and sensible step of introducing some flexibility to allow viability testing on a site by site basis. This gives us a great confidence that the DPD is deliverable.

10.32 We believe that this is approach is reflective of the market and generates a very substantial uplift for the landowners and the Council can have confidence that the DPD is deliverable. This is supported by the current experience on the ground through the development control process.

10.33 For the sake of completeness we have shown the impact of the higher 25% developers’ return compared to the 20% developers’ return in the following table.

Table 10.5 Residual Value compared to 20% + £400,000/ha Uplift Viability Threshold (£/net ha)

Developers' return of 20% and 25%

					20% GDV	25% GDV
Site 1	Urban Edge 1	Kendal	25,000	430,000	1,017,109	831,087
Site 2	Urban Edge 2	Kendal	25,000	430,000	986,281	772,718
Site 3	Office re-development	Kendal	400,000	480,000	272,991	30,763
Site 4	Estate Infill	Kendal	50,000	460,000	1,258,469	988,341
Site 5	LSC Infill	Arnside	50,000	460,000	754,112	565,668
Site 6	LSC Infill	Grange	50,000	460,000	882,866	694,863
Site 7	Cleared Urban	Ulverston	300,000	360,000	43,821	-262,517
Site 8	KSC Urban Edge	Milnthorpe	25,000	430,000	908,733	712,529
Site 9	LSC Edge	Allithwaite	50,000	460,000	1,307,848	1,060,360
Site 10	LSC Edge	Endmoor	50,000	460,000	889,158	703,008
Site 11	LSC Paddock	Penny Bridge	50,000	460,000	1,169,586	960,717
Site 12	Small Village	Lune Valley	50,000	460,000	1,952,203	1,677,952
Site 13	Ex Garage Site	Central SLDC	400,000	480,000	103,507	-73,964
Site 14	Village Infill	Cartmel Peninsula	50,000	460,000	1,056,066	854,394
Site 15	Village Infill	Eastern Area	50,000	460,000	552,018	455,105
Site 16	Rural House	Rural west	50,000	310,000	75,454	58,142
	Castle Green Road	Kendal	25,000	430,000	751,618	615,149
	Quarry Lane	Storth	25,000	430,000	729,108	538,318
	South Ulverston	Ulverston	25,000	430,000	522,158	343,462
	Ulverston Canal Head	Ulverston	300,000	360,000	495,210	259,067

Source: HDH 2013

10.34 The residual value is substantially reduced – however the majority of the sites remain viable with just the 5% of units planned on brownfield sites remaining unviable. The comments regarding the Ulverston Canal Head site made above remain pertinent here. The South Ulverston site, that would deliver about 13% of the SLDC housing requirement is a notable exception in that, whilst is would generate a substantial Residual Value it would not exceed the viability threshold.

Viability Threshold. £500,000/ha.

10.35 There was some concern expressed by stakeholders that the uplift approach was overly complicated. In the following table we have simply compared the Residual Value to a viability threshold of £500,000/net ha. We do not believe that this simple approach is reflective of different site types and would not be consistent with the Harman or RICS Guidance, however the results are very similar to those with the existing use value plus 20%, plus a further £400,000/ha on greenfield sites.

10.36 On this basis the brownfield sites are unviable but the 95% or so of units that are likely to come forward on greenfield sites remain viable.

Table 10.6 Residual Value compared to £500,000/ha Viability Threshold (£/net ha)									
			Alternative Land Value	Viability Threshold	Affordable %				
					0%	25%	30%	**35%**	40%
Site 1	Urban Edge 1	Kendal	25,000	500,000	1,443,027	1,148,255	1,083,908	**1,017,109**	948,778
Site 2	Urban Edge 2	Kendal	25,000	500,000	1,455,240	1,130,680	1,059,830	**986,281**	911,045
Site 3	Office re-development	Kendal	400,000	500,000	732,148	412,529	346,134	**272,991**	198,171
Site 4	Estate Infill	Kendal	50,000	500,000	1,716,295	1,404,668	1,333,530	**1,258,469**	1,182,385
Site 5	LSC Infill	Arnside	50,000	500,000	1,089,497	860,561	808,331	**754,112**	698,649
Site 6	LSC Infill	Grange	50,000	500,000	1,315,092	1,015,954	950,654	**882,866**	813,524
Site 7	Cleared Urban	Ulverston	300,000	500,000	399,698	153,528	100,147	**43,821**	-13,273
Site 8	KSC Urban Edge	Milnthorpe	25,000	500,000	1,319,627	1,034,413	971,956	**908,733**	841,158
Site 9	LSC Edge	Allithwaite	50,000	500,000	1,879,318	1,474,114	1,385,383	**1,307,848**	1,210,926
Site 10	LSC Edge	Endmoor	50,000	500,000	1,266,331	1,000,000	949,065	**889,158**	825,151
Site 11	LSC Paddock	Penny Bridge	50,000	500,000	1,648,636	1,320,890	1,245,698	**1,169,586**	1,088,227
Site 12	Small Village	Lune Valley	50,000	500,000	1,952,203	1,952,203	1,952,203	**1,952,203**	1,952,203
Site 13	Ex Garage Site	Central SLDC	400,000	500,000	457,674	212,560	159,053	**103,507**	46,688
Site 14	Village Infill	Cartmel Peninsula	50,000	500,000	1,522,498	1,203,186	1,130,073	**1,056,066**	976,954
Site 15	Village Infill	Eastern Area	50,000	500,000	552,018	552,018	552,018	**552,018**	552,018
Site 16	Rural House	Rural west	50,000	500,000	75,454	75,454	75,454	**75,454**	75,454
	Castle Green Road	Kendal	25,000	500,000	1,098,652	858,474	806,045	**751,618**	695,942
	Quarry Lane	Storth	25,000	500,000	1,175,868	866,671	799,175	**729,108**	663,665
	South Ulverston	Ulverston	25,000	500,000	852,535	623,926	573,994	**522,158**	469,132
	Ulverston Canal Head	Ulverston	300,000	500,000	928,748	625,484	559,283	**495,210**	424,244

Source: HDH 2013

Viability Threshold of 25% of GDV

10.37 Through the consultation process, and based on an approach considered in neighbouring Eden Council, it was suggested that, for a site to be viable, the Residual Value (i.e. the amount received by the owner) must exceed 25% of Gross Development Value. We have set out the results on this basis below.

Table 10.7 Residual Value compared to Viability Threshold of 25% of GDV

			GDV	% GDV	Residual	% of GDV
Site 1	Urban Edge 1	Kendal	27,652,629	6,913,157	5,339,823	19%
Site 2	Urban Edge 2	Kendal	34,474,092	8,618,523	5,720,430	17%
Site 3	Office re-development	Kendal	1,751,290	437,822	84,627	5%
Site 4	Estate Infill	Kendal	1,945,866	486,466	377,541	19%
Site 5	LSC Infill	Arnside	4,812,189	1,203,047	754,112	16%
Site 6	LSC Infill	Grange	7,144,640	1,786,160	1,324,299	19%
Site 7	Cleared Urban	Ulverston	1,786,127	446,532	10,955	1%
Site 8	KSC Urban Edge	Milnthorpe	13,091,105	3,272,776	2,271,833	17%
Site 9	LSC Edge	Allithwaite	4,578,328	1,144,582	980,886	21%
Site 10	LSC Edge	Endmoor	2,273,993	568,498	444,579	20%
Site 11	LSC Paddock	Penny Bridge	3,733,644	933,411	818,710	22%
Site 12	Small Village	Lune Valley	1,002,000	250,500	292,831	29%
Site 13	Ex Garage Site	Central SLDC	827,808	206,952	20,701	3%
Site 14	Village Infill	Cartmel Peninsula	1,970,884	492,721	422,426	21%
Site 15	Village Infill	Eastern Area	684,750	171,188	165,605	24%
Site 16	Rural House	Rural west	390,000	97,500	75,454	19%
	Castle Green Road	Kendal	11,024,904	2,756,226	2,314,982	21%
	Quarry Lane	Storth	7,045,698	1,761,425	1,035,333	15%
	South Ulverston	Ulverston	111,430,801	27,857,700	11,581,459	10%
	Ulverston Canal Head	Ulverston	12,225,882	3,056,471	955,755	8%

Source: HDH 2013

10.38 On this basis the sites in the DPD are generally not deliverable.

10.39 In fact this does not represent the approach taken in Eden where a two tier system was adopted with the Residual Value having to exceed a Viability Threshold of 10% of GDV for rural land and 20% of GDV for urban / brownfield land. The study has four geographical areas (Penrith, Eden Valley South, Eden Valley North, Alston). Penrith is the only area taken to be urban. If we follow the Eden precedent and assume a 20% threshold for the Brownfield sites (3, 7 and 13 and Canal Head) then they are all unviable as under the analysis set out in Table 10.5. The remaining sites all have a Residual Value that exceeds 10% so would be judged viable.

The delivery of Infrastructure

10.40 The above appraisals are based on the assumption that all sites will contribute £1,500 per unit towards infrastructure. This assumption is based on the current situation where the Council put particular emphasis on the delivery of affordable housing and was agreed with the development industry as representing the norm for a high level study such as this. This amount is collected through the s106 regime.

10.41 Cumbria County Council are in the process of developing a more formal framework for Developer Contributions. It is very likely that the amount will be higher. Further, the CIL Regulations[25] will limit the Council's ability to pool s106 contributions from April 2014 (although it is likely that this date will be revised back at least a year). This limit to pooling means that the Council is likely to have to introduce CIL. It is beyond the scope of this study to assess and advise as to the appropriate levels of CIL but, as it is a charge on development, it is important that the impact is considered.

10.42 As it is likely that the level of developer contribution will increase over the plan period – be that through s106 or under CIL we have carried out some sensitivity testing around this variable. We have run a further series of appraisals from the same assumptions used in the base appraisals above being:

a.	Affordable Housing	35% with mix as required by location and calculated as set out in Table 8.3 above.
b.	Environmental Standards	Building Regulations (Part L), CfSH 4 and Lifetime Homes.
c.	CIL and s106	Pre CIL – £1,500 per unit (market and affordable).
d.	Abnormals	As known.
e.	Developers' Return	20% of GDV.

[25] Regulation 123

10.43 We have run variables for contributions at £2,500 per unit, £5,000, unit, £7,500 per unit and £10,000 per unit. This change is applied to all units in a scheme, however it must be noted that s106 payments are levied on all units in a project whilst CIL will only apply to market units. This is an appropriate approach to take in this study as if CIL is introduced it will not replace s106 payments wholly.

10.44 We have only applied this variable to the modelled site as we have applied site specific costs to the specific sites modelled.

Table 10.9 Impact of different Developer Contributions									
			Alternative Use Value	Viability Threshold	Developer Contributions. £/ unit (market and affordable)				
			£/ha	£/ha	**£1,500**	**£2,500**	**£5,000**	**£7,500**	**£10,000**
Site 1	Urban Edge 1	Kendal	25,000	430,000	**1,017,109**	985,133	905,194	825,255	745,315
Site 2	Urban Edge 2	Kendal	25,000	430,000	**986,281**	951,307	863,874	776,440	689,006
Site 3	Office re-development	Kendal	400,000	480,000	**272,991**	229,023	119,103	9,184	-100,736
Site 4	Estate Infill	Kendal	50,000	460,000	**1,258,469**	1,217,735	1,115,898	1,014,061	912,225
Site 5	LSC Infill	Arnside	50,000	460,000	**754,112**	718,807	630,544	542,282	458,364
Site 6	LSC Infill	Grange	50,000	460,000	**882,866**	852,889	777,946	703,003	634,013
Site 7	Cleared Urban	Ulverston	300,000	360,000	**43,821**	-6,505	-132,321	-258,137	-385,862
Site 8	KSC Urban Edge	Milnthorpe	25,000	430,000	**908,733**	878,356	802,414	726,471	650,529
Site 9	LSC Edge	Allithwaite	50,000	460,000	**1,307,848**	1,275,569	1,194,872	1,114,175	1,033,478
Site 10	LSC Edge	Endmoor	50,000	460,000	**889,158**	858,607	782,230	705,852	629,475
Site 11	LSC Paddock	Penny Bridge	50,000	460,000	**1,169,586**	1,139,324	1,063,671	988,017	912,364
Site 12	Small Village	Lune Valley	50,000	460,000	**1,952,203**	1,925,047	1,857,156	1,789,265	1,721,374
Site 13	Ex Garage Site	Central SLDC	400,000	480,000	**103,507**	77,296	11,767	-53,763	-119,292
Site 14	Village Infill	Cartmel Peninsula	50,000	460,000	**1,056,066**	1,030,607	966,959	903,311	839,663
Site 15	Village Infill	Eastern Area	50,000	460,000	**552,018**	541,636	515,680	489,724	463,768
Site 16	Rural House	Rural west	50,000	310,000	**75,454**	74,406	71,785	69,163	66,542

Source: HDH 2013

10.45 As would be expected, the residual value drops as the developer contribution increases. On the Existing Use Value plus 20% plus £400,000/ha assumption for greenfield sites there is scope to increase the level of developer contribution, however, bearing in mind the lack of agreement between the Council and stakeholders, and amongst stakeholders we would suggest that a cautious approach is taken.

10.46 When the Council move forward to implement CIL this will need further work.

Impact of Price Change

10.47 It is important that, whatever policies are adopted it is not unduly subject to sensitive to changes in the future changes in prices and costs. We have therefore tested various variables in this regard. We have followed the time horizons set out in the NPPF and the methodology in the Harman Guidance.

10.48 In this report we have used the build costs produced by BCIS. As well as producing estimates of build costs BCIS also produce various indices and forecasts to track and predict how build costs may change over time. The BCIS forecast a 15% increase in prices over the next 5 years[26]. We have tested a scenario with this increase in build costs.

10.49 As set out in Chapter 4, we are in a current period of uncertainty in the property market. It is not the purpose of this report to predict the future of the market. We have therefore tested four price change scenarios, minus 10% and 5%, and plus 10% and 5%. In this analysis we have assumed all other matters in the base appraisals remain unchanged.

10.50 It is important to note that in the following table only the costs of construction and the value of the market housing is altered. This is a cautious assumption but, based on the Council's affordable housing policy an appropriate one. We have used the viability test with the existing use value plus 20%, plus a further £400,000/ha on greenfield sites.

[26] See Table 1.1 (Page 6) of in *Quarterly Review of Building Prices* (Issue No 127 – November 2012). 15% calculated on BCIS All-in TPI change from 220 to 254.

Table 10.9 Impact of Cost and Value Change

					BCIS + 15%	Value - 10%	Value - 5%	**Base (35% Aff)**	Value + 5%	Value +10%
Site 1	Urban Edge 1	Kendal	25,000	430,000	717,531	762,437	889,773	**1,017,109**	1,144,445	1,271,781
Site 2	Urban Edge 2	Kendal	25,000	430,000	636,492	697,516	841,899	**986,281**	1,130,663	1,275,046
Site 3	Office re-development	Kendal	400,000	480,000	-127,326	-33,737	119,627	**272,991**	422,196	574,064
Site 4	Estate Infill	Kendal	50,000	460,000	889,890	919,203	1,088,836	**1,258,469**	1,428,102	1,597,736
Site 5	LSC Infill	Arnside	50,000	460,000	437,844	512,265	633,188	**754,112**	875,035	995,959
Site 6	LSC Infill	Grange	50,000	460,000	589,565	643,400	760,113	**882,866**	1,005,620	1,128,373
Site 7	Cleared Urban	Ulverston	300,000	360,000	-550,204	-328,422	-141,983	**43,821**	229,625	415,429
Site 8	KSC Urban Edge	Milnthorpe	25,000	430,000	581,850	649,507	779,120	**908,733**	1,038,346	1,167,959
Site 9	LSC Edge	Allithwaite	50,000	460,000	939,688	984,609	1,146,228	**1,307,848**	1,455,669	1,615,771
Site 10	LSC Edge	Endmoor	50,000	460,000	602,628	649,576	769,367	**889,158**	1,000,000	1,118,041
Site 11	LSC Paddock	Penny Bridge	50,000	460,000	859,498	891,584	1,030,585	**1,169,586**	1,308,586	1,433,995
Site 12	Small Village	Lune Valley	50,000	460,000	1,677,946	1,549,522	1,736,035	**1,952,203**	2,168,372	2,384,541
Site 13	Ex Garage Site	Central SLDC	400,000	480,000	-154,166	-121,586	-9,040	**103,507**	216,054	328,601
Site 14	Village Infill	Cartmel Peninsula	50,000	460,000	758,148	792,224	924,145	**1,056,066**	1,187,987	1,307,398
Site 15	Village Infill	Eastern Area	50,000	460,000	422,599	404,395	476,234	**552,018**	627,803	703,587
Site 16	Rural House	Rural west	50,000	310,000	50,852	48,966	62,210	**75,454**	88,698	101,942
	Castle Green Road	Kendal	25,000	430,000	561,405	567,607	659,612	**751,618**	843,623	935,628
	Quarry Lane	Storth	25,000	430,000	439,153	477,605	606,812	**729,108**	857,102	985,095
	South Ulverston	Ulverston	25,000	430,000	194,317	285,876	405,296	**522,158**	640,286	758,357
	Ulverston Canal Head	Ulverston	300,000	360,000	7,595	184,860	339,159	**495,210**	645,145	799,731

Source: HDH 2013

10.51 The viability of sites is sensitive to changes in the costs of development and changes in price, however the impact on overall viability of development across SLDC is relatively limited. A fall in prices of up to 10% will have little impact on the proportion of units coming forward – however an increase in prices will bring two of the three unviable brownfield sites into viability. Having said this, the major South Ulverston site is very sensitive to price change and we would recommend a continued engagement with the promoters of that site.

10.52 Bearing in mind the uncertain market we would suggest that it would be unwise to rely on an increase in house prices over the plan period. However if there was a fall, the Council should be reassured that it would have relatively little impact in the deliverability of the plan.

Ulverston Canal Head

10.53 The above analysis includes a residential block which is part of the wider the Canal Head regeneration site. This is small part of a complex regeneration scheme

10.54 In 2005 a comprehensive master-plan plan was produced for the whole of the canal area and the adjoining business park. This is somewhat historic, however in terms of what exists on the ground little has changed and the logic and vision behind the project appears to remain valid and appropriate. The overall project has significant challenges, not least in terms of land assembly and the willingness of the various owners to co-operate and bring the site forward however, quite rightly the master-plan is based around an assumption that the different element and components are unlikely to come forward in insolation and that an overall strategy is needed.

10.55 The residential element has been included in the above for illustrative purposes but it is unlikely that any one element of development around the canal would come forward in isolation – although the business park elements may well do so.

10.56 In order to provide some advice to the Council as to the deliverability of this area we have updated the costs that are set out in Section 14 of the master-plan. We have done this through indexing all the costs in line with the BCIS Index[27]. This is clearly a very approximate approach and we would urge caution in using the results. The master-plan does not include a business plan or an estimate of the income that may be derived from the project so we have attributed the values used elsewhere in this report to the appropriate elements to come forward. For those elements that are of limited commercial potential (the leisure and museum elements) we have assumed that external funding equal to the costs would be forthcoming. These are set out in **Appendix 3** and summarised in the following table:

[27] The BCIS Index tracks price changes in construction and has increased by 33% since 2005.

Table 10.10 Summary of Canal Head Costs – Full Master-plan £	
Anticipated Income	39,706,252
Updated Construction Costs	48,266,387
Fees	4,826,639
Contingency	2,413,319
Sales	1,389,719
Developer's Profit	9,653,277
Profit/Loss before land assembly and interest	**-26,843,089**

Source Master-plan and HDH

10.57 The above costs make no allowance for land assembly costs, planning costs or finance charges. Of the above costs about £13,100,000 of costs and £2,150,000 of income relates directly to the development of the business park and is discussed in the next chapter.

10.58 There is uncertainty about these figures however it is clear that on purely commercial grounds, and when assessed under the Harman Guidance and as is appropriate under the NPPF that it is unlikely that the Canal Head regeneration project will come forward without substantial subsidy and external funding.

Conclusions

10.59 We take this opportunity to stress again that the results in themselves to do not determine policy. We have discussed the consequences of these results in Chapter 12.

11. Non-Residential Appraisal Results

11.1 Based on the assumptions set out previously we have run a set of development financial appraisals for these two market areas. The detailed appraisal results are set out in **Appendix 8** and summarised at the end of this chapter.

11.2 As with the residential appraisals, we have used the Residual Valuation approach – that is, we have run appraisals to assess the value of the site after taking into account the costs of development, the likely income from sales and/or rents, and an appropriate amount of developers' profit. The payment would represent the sum paid in a single tranche on the acquisition of a site. In order for the proposed development to be described as viable, it is necessary for this value to exceed the value from an alternative use. To assess viability we have used exactly the same methodology with regard to the Viability Thresholds (alternative Land Use plus 'uplift').

Table 11.1 Residual Value compared to Viability Threshold						
			Gross Dev Value	Viability Threshold	Residual Value	
					Site	£/ha
Greenfield	Industrial East	Large	1,125,000	14,812	11,457	49,811
		Small	150,000	305	-57,398	-1,739,321
	Industrial West	Large	1,050,000	14,812	-60,657	-263,726
		Small	140,000	305	-67,015	-2,030,757
	Offices East	Large	750,000	2,800	-99,470	-994,700
		Small	225,000	252	-40,325	-1,344,163
	Offices West	Large	650,000	2,800	-195,621	-1,956,206
		Small	195,000	252	-69,172	-2,305,729
	Distribution		3,500,000	500,000	106,216	106,216
Brownfield	Industrial East	Large	1,125,000	25,392	-146,202	-635,660
		Small	150,000	523	-84,933	-2,573,720
	Industrial West	Large	1,050,000	19,044	-210,477	-915,117
		Small	140,000	392	-93,425	-2,831,075
	Offices East	Large	750,000	4,800	-216,377	-2,163,765
		Small	225,000	432	-75,397	-2,513,228
	Offices West	Large	650,000	3,600	-309,119	-3,091,191
		Small	195,000	324	-103,221	-3,440,714
	Distribution		3,500,000	360,000	-286,571	-286,571
Land at Scroggs Wood, Kendal		Industrial / Offices	45,000,000	3,080,000	-1,219,618	-110,874
Land East of Burton Road		Industrial / Offices	21,000,000	1,260,000	-897,738	-199,497
Gatebeck Lane, Endmoor		Industrial	11,250,000	2,725,632	143,992	46,151
Mainline Business Park		Industrial	30,000,000	18,234,972	285,250	35,347
Lightburn Road		Offices	19,500,000	2,690,800	-5,882,085	-1,897,447

Source: HDH 2013

11.3 It is clear from the above, and as we would expect in the current economic climate, that the principle employment uses of industrial and office are not generally viable. This is not surprising and is the norm across the north of England, where very little, if any speculative development is being brought forward by the development industry.

11.4 The above analysis does not include the Business Park element which is part of the wider the Canal Head, Ulverston regeneration site. In 2005 a comprehensive master-plan plan was produced for the whole of the canal area and the new neighbouring business park. This somewhat historic, however in terms of what exists on the ground little has changed and, further, the logic and vision behind the project remains valid and appropriate. The site has significant challenges, not least in terms of land assembly and the willingness of the various owners to co-operate and bring the site forward. Please see the last parts of Chapter 10 and **Appendix 3** for more details.

11.5 Of particular relevance to this project is the land to the Rear of Booths supermarket in Ulverston. Using the same principles as set out in **Appendix 3** and in order to provide some advice to the Council as to the deliverability of this site we have updated the costs contained in Section 14 of the master-plan. We have done this through indexing all the costs in line with the BCIS Index[28]. This is clearly a very approximate approach and we would urge caution in using the results. The master-plan does not include a business plan or an estimate of the income that may be derived from the project so we have attributed the values used elsewhere in this report to the appropriate elements.

11.6 Of the total costs above costs about £15,428,000 of costs and £4,698,000 of income relates directly to the development of the business park. There is uncertainty about these figures however it is clear that on purely commercial grounds, and when assessed under the Harman Guidance and as is appropriate under the NPPF that it is unlikely that the site would come forward. It should, however, be noted that the Council have recently received a planning application for part of this land from Tritech, to develop the site as a high quality manufacturing centre.

11.7 This analysis will not reflect the development that is brought forward by companies seeking accommodation for operational reasons. There are several schemes being promoted and coming forward, such as that by GSK at Ulverston where, in pure property development terms it is not viable to do so. At the end of the development process, the value of the land and the building will be worth less than the costs of constructing the building and buying the land as there are other reasons for bringing land forward. These other reasons cannot be reflected in a high level viability study of this type which is considering the viability of development where development for profit is the objective.

11.8 The development assumptions for the specific sites are set out in **Appendix 3**.

Conclusions

11.9 We take this opportunity to stress again that the results in themselves to do not determine policy. We have discussed the consequences of these results in Chapter 12.

[28] The BCIS Index tracks price changes in construction and has increased by 33% since 2005.

12. Conclusions and Recommendations

12.1 This document sets out the methodology used, the key assumptions adopted, and the results, and has been prepared to assist the Council with the assessment of the viability of the Land Allocations DPD. The NPPF, the CIL Guidance and the Harman Viability Guidance requires stakeholder engagement – particularly with members of the development industry. Extensive and detailed consultation has taken place and whilst there was not universal agreement a broad consensus on most matters was achieved.

12.2 In this report we have 'tested' 16 notional / modelled residential sites, a range of non-residential types and a range of specific sites that are perceived to have abnormal costs sites in order that a broad assessment of the viability of the sites included within the Land Allocations DPD can be made. This will be an important, but not the only, factor to be taken into account when considering the deliverability of the DPD.

12.3 The core purpose of this report is to assess the deliverability of the Land Allocations DPD. This must be carried out in the context of the current adopted policies set out in the SLDC 2010 Core Strategy. If the Council are not confident that the sites within the DPD are deliverable they should not proceed with the examination process and should seek further and or alternative development sites.

12.4 Much of the preparation of the SLDC Land Allocations DPD took place before the publication of the NPPF – however when reviewed back against the NPPF it meets the requirements of that document. When considering the deliverability of the DPD it is also useful to consider paragraph 154 of the NPPF.

154. Local Plans should be aspirational but realistic. They should address the spatial implications of economic, social and environmental change. Local Plans should set out the opportunities for development and clear policies on what will or will not be permitted and where. Only policies that provide a clear indication of how a decision maker should react to a development proposal should be included in the plan.

12.5 The plan is aspirational but realistic. Not all sites, particularly the brownfield sites and the employment sites are viable now, but the Council has sensible ambitions to bring land forward. It is taking practical steps to create the right environment to facilitate development – such as the resolving to adopt CIL to provide an additional source of funding for the infrastructure required and identified in the Infrastructure Delivery Plan.

12.6 The principle message from Government is about enabling and delivering development. SLDC is not a developer and its tools to deliver housing and employment space are limited to creating an environment that is conducive to development, without imposing such a level of burden of developers to prevent them, and landowners, making a competitive return.

Non-Residential Development

12.7 It is clear that most non-residential development across SLDC's administrative area (outside the National Parks) is not viable in the current market. This is not surprising bearing in mind the current state of the market, and as this reflected on the ground with the lack of actual development coming forward. As mentioned in the previous chapter, viability testing in the planning context is about the viability of property development. As can be clearly seen through the projects being brought forward by end-users such as GSK and Tritech where the Council and others have created the right environment, business are seeking to expand and move to the area.

12.8 The lack of development viability is not, on the whole, a factor of high level of abnormal costs (the highway costs we have been supplied with and have tested are relatively modest in the scale of overall development) and the Council has not formulated a set of policies that are expensive for the developer to implement. In terms of development control policies the Council has not imposed any policies over and above the bare minimum on employment space.

12.9 The development of workspace is an important element of the Council's strategic objectives and the Council places a high level of importance on this part of the overall Development Plan. The Council is not a developer, its role is to create the best possible environment to facilitate development – within the wider constraints of the plan.

12.10 We would recommend that the Council gives careful consideration to how it can go further in facilitating non-residential development. These may include ensuring that the specific highways works are included on the CIL Regulation 123 List[29] and allowing enabling development (such as including a hotel or similar to provide an element of cross subsidy).

12.11 The Council is already doing much in this direction. Historically it worked with the North West Development Agency and is now an active participant in the Local Enterprise Partnership (LEP). Through continuing to provide the best possible environment for business, employers will continue to be attracted to the high quality area – even if in pure monetary terms is not viable to build the required premises. Clear evidence of this can be seen GSK's expansion in Ulverston and the Tritech application (site M26) on what in property development terms is unviable employment land in Ulverston.

[29] This is the list of items that the Council will deliver, and fund in part, through CIL.

Residential Development

12.12 The assessment as to the deliverability and effectiveness of the DPD comes down to the Viability Threshold and the amount the Residual Value needs to achieve to persuade landowners to release land for development.

12.13 As set out earlier in this report, there was not agreement as to what the Viability Threshold is in the South Lakeland area. It is clear that if the two suggestions of £1,000,000/ha and 25% of GDV are followed, then the DPD is not deliverable as few of the sites in the DPD are viable on that basis. At £1,000,000/ha, only about 40% of the units within the DPD would be deliverable.

12.14 If this is the case (and we do not think it is) then the Council must suspend the DPD process and seek alternative sites. Before embarking on such a process we do question whether or not the results of such a process would be any different to those found in this report. This report is based on modelled sites that have been informed by those in the DPD. These sites have been through various levels of screening and sifts. Having reviewed these, and based on our local knowledge, we think that it is unlikely that alternative sites are going to perform much better than those currently in the DPD.

12.15 Using the viability test of Existing Use Value of plus 20%, plus a further £400,000/ha on greenfield sites we can see that greenfield sites are viable, but the brownfield sites are not – see the table below.

12.16 When looked at in more detail it is clear that the site types that will bear about 80% of new dwelling will generate a residual value in excess of over £750,000/ha which allows a very substantial 'competitive return' for the landowner over and above an existing use value of £25,000/ha or so.

Table 12.1 Residual Value compared to 20% + £400,000/ha Uplift Viability Threshold (£/net ha) 35% Affordable					
			Alternative Land Value	Viability Threshold	**Residual Value**
Site 1	Urban Edge 1	Kendal	25,000	430,000	**1,017,109**
Site 2	Urban Edge 2	Kendal	25,000	430,000	**986,281**
Site 3	Office re-development	Kendal	400,000	480,000	**272,991**
Site 4	Estate Infill	Kendal	50,000	460,000	**1,258,469**
Site 5	LSC Infill	Arnside	50,000	460,000	**754,112**
Site 6	LSC Infill	Grange	50,000	460,000	**882,866**
Site 7	Cleared Urban	Ulverston	300,000	360,000	**43,821**
Site 8	KSC Urban Edge	Milnthorpe	25,000	430,000	**908,733**
Site 9	LSC Edge	Allithwaite	50,000	460,000	**1,307,848**
Site 10	LSC Edge	Endmoor	50,000	460,000	**889,158**
Site 11	LSC Paddock	Penny Bridge	50,000	460,000	**1,169,586**
Site 12	Small Village	Lune Valley	50,000	460,000	**1,952,203**
Site 13	Ex Garage Site	Central SLDC	400,000	480,000	**103,507**
Site 14	Village Infill	Cartmel Peninsula	50,000	460,000	**1,056,066**
Site 15	Village Infill	Eastern Area	50,000	460,000	**552,018**
Site 16	Rural House	Rural west	50,000	310,000	**75,454**
	Castle Green Road	Kendal	25,000	430,000	**751,618**
	Quarry Lane	Storth	25,000	430,000	**729,108**
	South Ulverston	Ulverston	25,000	430,000	**522,158**
	Canal Head	Ulverston	25,000	430,000	**495,210**

Source: HDH 2013

12.17 It is reassuring to note that the Council's largest site, that to the south of Ulverston (that will deliver about 13% of the dwellings under the plan) is viable even when very cautious allowance is made for the potentially abnormal costs – although it is sensitive to falls in prices and increases in costs.

12.18 SLDC have continued dialogue with the site owners and promoters throughout the land allocation process and this viability study and they have actively contributed to the process of iteration utilised in this study. All promoters and developers of this land have provided assurances and evidence to SLDC that the sites are deliverable. This process will need to continue as the Council proceeds towards CIL.

12.19 The residential element of the Canal Head site at Ulverston is shown as viable. This is the case however, based on the current market, we would not expect it to come forward in the foreseeable future. Flats in secondary locations (away from the large regional city centres), are not only difficult for a developer to finance, but also the mortgage market remains very constrained. We understand there are significant site assembly problems associated with this site that means it is unlikely to come forward in the near future as it is unlikely that this would come forward other than as part of a comprehensive scheme to regenerate the area and improve the general environs and to make an appropriate and attractive area for development. We would suggest that the Council treats any anticipated delivery from this site with great caution.

12.20 The affordable housing policy that is subject to viability testing gives us reassurance that where there are higher than normal costs the Core Strategy is sufficiently adaptable to allow land to come forward and housing to be delivered.

12.21 We have considered the ability, within the context of the Core Strategy, for sites to bear an increased level of contribution towards infrastructure – either through CIL or through s106. There is scope to increase the level of developer contribution; however, bearing in mind the lack of agreement between the Council and stakeholders, and amongst stakeholders, we would suggest that a cautious approach is taken and it is clear that some landowners do have higher expectations as to the amount that they should receive for their land.

12.22 The DPD sets out the housing to be delivered over the whole plan period – not just now. The viability testing in this report is largely at today's costs and values. As shown in Table 10.9 the results do change quite significantly as build costs and values change. A modest increase in prices will bring more sites into viability – however we would suggest the Council is very cautious about relying on assumptions about house price increases.

12.23 We believe that the group of landowners and agents with expectations for £1,000,000/ha are out of date and relate back to the peak of the development market in 2007. These prices do not reflect the policies that prevail in the area and set out in the adopted SLDC Core Strategy and current development environment. It is however important to stress that the position was not universal and the Existing Use Value of plus 20%, plus a further £400,000/ha test emerged from the consultation process and is based on a substantially higher return than put forward at the start of the consultation.

12.24 Our recommendation is that the Council should proceed with the Land Allocations DPD process as, in our opinion, the bulk of the sites are deliverable and the vast majority of the housing allocations are viable (just the 5% brownfield sites not being so). Based on our professional opinion, the assumptions that we have relied on are sound and appropriate – particularly in the context of the NPPF, the Harman and RICS Guidance, and our knowledge of the local market.

12.25 At the start of this report we included a quote from the Harman Guidance:

…. the viability assessment is not there to give a straightforward 'yes or no' to development across the whole plan area or whole plan period.

12.26 This was well illustrated through the consultation process with a range of representations being made. We believe there is a low level of risk of non-delivery as the threshold value was not unanimously agreed.

Next Steps

12.27 The recommendations in this study are 'a consultant's view' and do not reflect the particular priorities and emphasis that SLDC may put on different parts of its development plan.

12.28 We stress that the information in this report is an important element of the assessment of deliverability - but is only one part of the evidence; the wider context needs to be considered

HDH Planning and Development (HDH) is a specialist planning consultancy providing evidence to support planning authorities, land owners and developers.

The firm is led by Simon Drummond-Hay who is a Chartered Surveyor, Associate of Chartered Institute of Housing and senior development professional with a wide experience of both development and professional practice. The firm is regulated by the RICS.

The main areas of expertise are:

- Community Infrastructure Levy (CIL) testing
- District wide and site specific Viability Analysis
- Local and Strategic Housing Market Assessments and Housing Needs Assessments
- Future Housing Numbers Analysis (post RSS target setting)

HDH Planning and Development have clients throughout England and Wales.

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