

## Viability Report

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Local Plan Financial Viability  
Assessment



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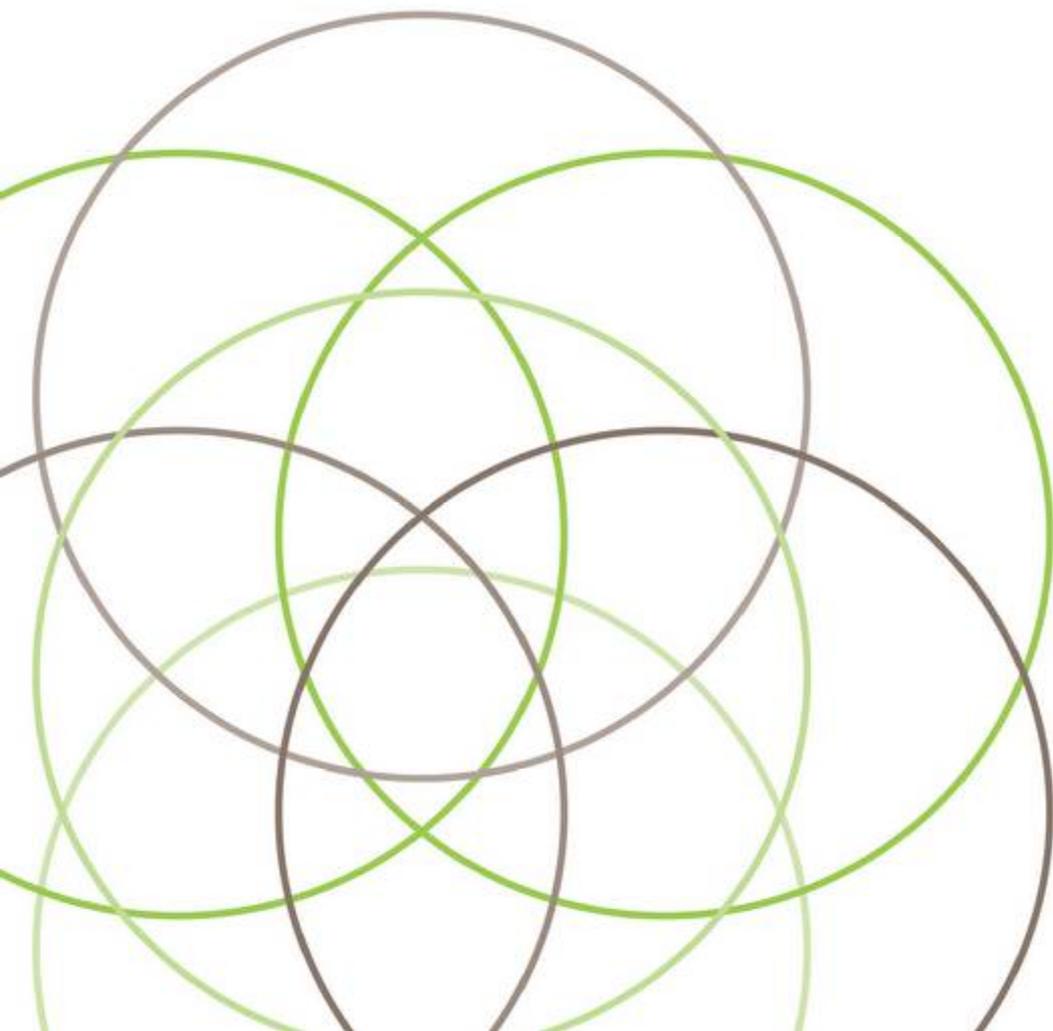
Northumberland National Park  
Authority

May 2019

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## Quality Assurance

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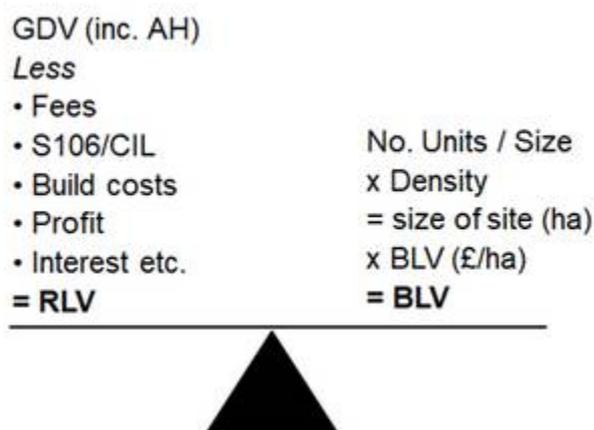
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## Executive Summary

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- ES 1 AspinallVerdi has been appointed by Northumberland National Park Authority to provide economic viability advice in respect of the cumulative impact on development of the new Local Plan policies. The Local Plan replaces policies in the 2009 Core Strategy and Development Management Policies document and covers the period 2017-2037.
- ES 2 This Local Plan covers the area within the boundaries of the Northumberland National Park, for which the Authority acts as the planning authority.
- ES 3 Note that throughout this report references to 'market housing' refer to Local Connection and / or Principal Residency units as the context requires. References to affordable housing have the usual meaning to include affordable rented and intermediate/low cost home ownership products as defined by the NPPF.
- ES 4 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, statutory regulations and guidance (see section 2).
- ES 5 We have carried out a comprehensive review of the market for new build residential sales values (see Appendices 3).
- ES 6 Our general approach is illustrated on the diagram below (ES.1). This is explained in more detail in section 4 – Viability Assessment Method.

**Figure ES.1 - Balance between RLV and BLV**



Source: AspinallVerdi © Copyright

- ES 7 We have carried out residual appraisals to establish the Residual Land Value (RLV). This is a traditional model having regard to: the gross development value (GDV) of the scheme; including Affordable Housing; and deducting all costs; to arrive at the RLV. A scheme is viable if the RLV is positive for a given level of profit. We describe this situation herein as being ‘fundamentally’ viable.
- ES 8 We have had regard to the cumulative impact of the Local Plan policies. The impact of each of the policies (either direct or indirect) is set out on the policies matrix (at Appendix 1).
- ES 9 This is then compared to the Benchmark Land Value (BLV). The BLV is the price at which a landowner will be willing to sell their land for development. In the context of Affordable Housing sites in the National Park, this is set at £10,000 per plot.
- ES 10 The RLV less BLV results in an appraisal ‘balance’ which should be interpreted as follows:
- If the ‘balance’ is positive, then the proposal / policy is viable. We describe this as being ‘viable for plan making purposes’ herein.
  - If the ‘balance’ is negative, then we have calculated the level of grant needed to make the site viable.
- ES 11 In order calculate the minimum grant requirement to deliver the schemes we have ‘back-solved’ the surplus/(deficit) to £1 by inserting a grant sum into the scheme revenue.
- ES 12 In addition to the RLV appraisals and BLV analysis, we have also prepared a series of sensitivity scenarios for each of the typologies. These are set out for each of the appraisals at Appendix 5.
- ES 13 Where the RLV is positive but the ‘balance’ is negative due to the BLV assumption, we refer to this as being ‘marginal’ in terms of viability.
- ES 14 Our residential typologies which we have tested are set out as follows:
- typical scheme sizes (1 or 10-unit types);
  - most likely development scenario (e.g. greenfield or brownfield); and,
  - typical constraints. This is to broadly reflect the potential development sites in the National Park.
- ES 15 The number of units on each typology is set to be divisible (as far as possible) between the various tenure types. These typologies are reflected in our typologies matrix which is appended (Appendix 2) and have been appraised three times each to reflect different tenure assumptions:

- Typologies A – H: 100% Affordable Housing
  - Typologies I – P: 20 / 33% Affordable Housing (remaining units are 100% Principal Residency)
  - Typologies Q – X: 20 / 33% Affordable Housing (remaining units 50% Local Connection / 50% Principal Residency).
- ES 16 Our detailed assumptions and results are set out in sections 5 - 9 of this report together with our results and conclusions in section 10.
- ES 17 The results show that grant funding is require of between £20,733 - £65,731 per unit, depending on the specific typology and tenure assumptions. Assuming that Homes England has funding of this magnitude (subject to the detailed business case being made by the Registered Provider's), the Plan is viable.
- ES 18 In addition, we recommend that, in accordance with best practice, the plan wide viability is reviewed on a regular basis to ensure that the Plan remains relevant as the property market cycle(s) change. Our sensitivities demonstrate that the schemes are sensitive to increases in build rate, therefore particular attention should be paid to monitoring construction costs.
- ES 19 Furthermore, to facilitate the process of review, we recommend that the Authority monitors the development appraisal parameters herein, but particularly data on land values across the National Park.

## 1 Introduction

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- 1.2 AspinallVerdi has been appointed by Northumberland National Park Authority to provide a Financial Viability Assessment (FVA) in respect of the cumulative impact on development of the new Local Plan policies.

### RICS Practice Statement

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- 1.3 Our FVA has been carried out in accordance with the RICS Financial Viability in Planning: Conduct and Reporting Practice Statement (Draft November 2018).
- 1.4 Our FVA has also been carried out in accordance with the RICS Financial Viability in Planning guidance (1st edition, guidance note, August 2012) having regard to the 2018/19 revisions to the National Planning Policy Framework (NPPF, July 2018 and February 2019) and the Planning Practice Guidance (PPG, July 2018).

### Objectivity, Impartiality and Reasonableness

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- 1.5 We have carried out our review in collaboration with the National Park Authority; and in consultation with industry. At all times we have acted with objectivity, impartially and without interference when carrying out our viability assessment and review.
- 1.6 At all stages of the viability process, we have advocated reasonable, transparent and appropriate engagement between the parties.

### Conflicts of Interest

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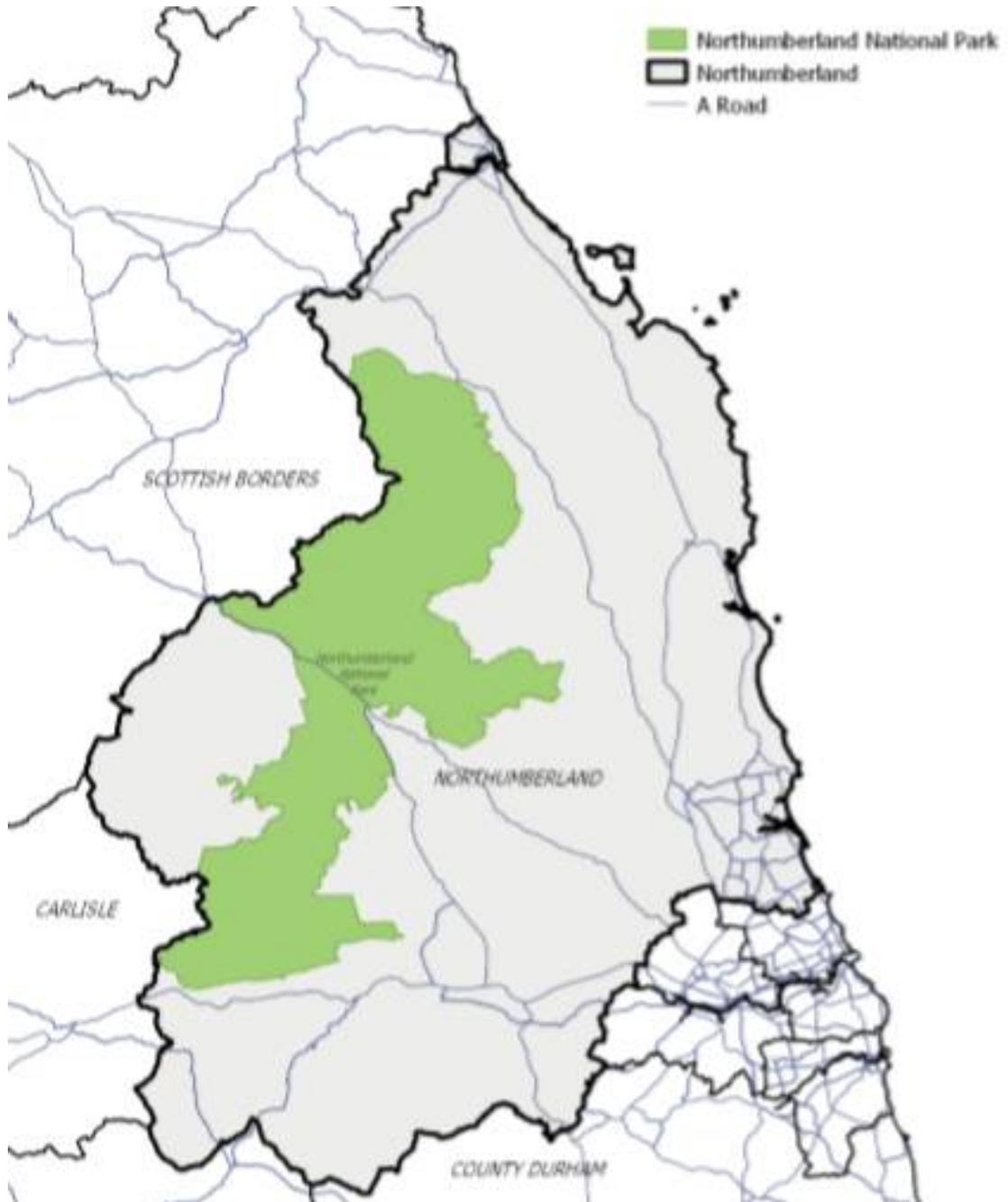
- 1.7 We confirm that we have no conflict of interest in providing this advice and we have acted independently and impartially.

### Local Plan Reviewed

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- 1.8 The Local Plan replaces policies in the 2009 Core Strategy and Development Management Policies document and covers the period 2017-2037.
- 1.9 This Local Plan covers the area within the boundaries of the Northumberland National Park, for which the Authority acts as the planning authority.
- 1.10 The Plan is founded on the need to support the statutory purposes of National Park designation and within this to help implement the Authority's duty to foster the economic and social wellbeing of local communities. The National Park boundary is shown in Figure 1.1 below.

**Figure 1.1 - Northumberland National Park Authority**



Source: SHMA – May 2017 (February 2019).

- 1.11 The new Local Plan includes (amongst others) policies on the environment, affordable housing, sustainable tourism and the historic environment.
- 1.12 Three rounds of public consultation have been carried out prior to publication of the draft plan:
- The first round of formal public consultation related to an Issues Paper and was undertaken in the Spring of 2017.
  - The second round of public consultation related to a Local Plan Policy Options Paper (December 2017).
  - The third round of public consultation was on the Preferred Options Draft Plan and this (September 2018).
- 1.13 The consultation on the Preferred Options Draft Plan (July 2018) concluded on the 24th September 2018.

## Approach to Plan Viability in the National Park

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- 1.14 It is important to explain the differences between this viability report for Northumberland National Park and a typical plan viability report which would be applicable outside of a National Park setting.
- 1.15 A typically study would use the 'Residual Land Value' method whereby open market housing development is permitted and the local planning authority is asking for an element of affordable housing as part of the development.
- 1.16 The purpose of a typical viability assessment is to ensure that policies are realistic and the total cumulative cost of all relevant policies (including affordable housing) is not of a scale that would make development unviable i.e. provides a sufficient return to the land owner and developer to enable the development to proceed. This type of assessment is based on the assumption that land allocations are made in the Local Plan which enables a cross subsidy of affordable housing with market housing through an element of planning gain.
- 1.17 Policies in the draft Northumberland National Park Local Plan states there is a need of up to 8 units per annum (OAN). These sites are inherently unviable as the aim is to deliver 100% affordable housing through grant funding.
- 1.18 Our study for Northumberland National Park aims to establish:
- How much grant is required for schemes of different sizes and in different locations to be viable;
  - How the mix of affordable rented and low-cost home ownership affects scheme viability;
  - How greenfield and brownfield sites compare in terms of the amount of grant needed to be viable; and

- What effect does the inclusion of Principal Residency dwellings have on the viability and the amount of granted required.

1.19 We will then carry out a Stakeholder consultation to confirm the above methodology and appraisal assumptions.

1.20 The remainder of this report is structured as follows;

Section:	Contents:
Section 2 – National Planning Policy Context	This section sets out the statutory requirements for the Local Plan viability including the NPPF and PPG.
Section 3 – Local Planning Policy Context	This section sets out the details of the current adopted Local Plan, the existing evidence base, and the emerging Local Plan policies which will have a direct impact on viability.
Section 4 – Viability Assessment Method	This section describes our generic methodology for appraising the viability of development which is based on the residual approach as required by guidance and best practice.
Section 5 – 9	These sections summarise the existing evidence base, typologies, value, cost, land value and profit assumptions and the viability results.
Section 10 – Viability Results and Conclusions	Finally, we make our recommendations in respect of the Plan viability and Affordable Housing.

1.21 Note that throughout this report references to ‘market housing’ refer to Local Connection and / or Principal Residency units as the context requires. Policy does not allow any unrestricted new build open market housing in the National Park. References to affordable housing have the usual meaning to include affordable rented and intermediate/low cost home ownership products as defined by the NPPF.

## 2 National Planning Policy Context

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2.1 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, planning policy, statutory regulations and guidance.

### Environmental Act 1995

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2.2 Due to the status of Northumberland as a National Park, regard must be had to the Environmental Act 1995.

2.3 Section 61 of the 1995 Environment Act sets out two purposes for National Park Authorities, these are:

- a) *“conserving and enhancing the natural beauty, wildlife and cultural heritage of the areas specified...”; and*
- b) *“promoting opportunities for the understanding and enjoyment of the special qualities of those areas by the public”.*

2.4 Section 62 continues to define the duty of the National Park Authorities:

- (1) *“seek to foster the economic and social well-being of local communities within the National Park”,*
- (2) *“have regard to [the statutory purposes] in exercising or performing any functions in the National Park and; if it appears that there is a conflict between those purposes, to attach greater weight to the purpose of conserving and enhancing the natural beauty, wildlife and cultural heritage of the area.”*

2.5 The National Park Management Plan (adopted November 2012; First Review December 2016) is the strategic framework for the future of the National Park and considers how the Authority can achieve these purposes. This document has been used to inform the emerging Local Plan.

2.6 Policies within the Local Plan are based upon the need to fulfil the first purpose (conserving and enhancing the Park), as well as making sure that the Park can be enjoyed and appreciated by the public. In the event of any potential conflict between these two purposes, the first takes precedence. The Local Plan must also aim to protect the well-being of the local communities where this does not undermine the two purposes.

2.7 The Government’s vision for National Parks are set out in the National Parks Circular<sup>1</sup> which focuses on five priority outcomes:

- A renewed focus on achieving the Park purposes;

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<sup>1</sup> English National Parks and the Broads – UK Government Vision and Circular 2010 (DEFRA, 2010)

- Leading the way in adapting to and mitigating climate change;
- Secure a diverse and healthy natural environment, enhanced cultural heritage and inspiring lifelong behaviour change;
- Foster and maintain vibrant, healthy and productive living and working communities;
- Working in partnership to maximise benefits and minimise cost.

2.8 Also, of note within this document is paragraph 78:

*“The Government recognises that the Parks are not suitable locations for unrestricted housing and does not therefore provide general housing targets for them. The expectation is that new housing will be focused on meeting affordable housing requirements, supporting local employment opportunities and key services.”*

## National Planning Policy Framework

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- 2.9 The revised National Planning Policy Framework (NPPF) was published in July 2018 (and updated again in February 2019). The NPPF confirms the Government’s planning policies for England and how these should be applied and provides a framework within which locally-prepared plans for housing and other development can be produced<sup>2</sup>.
- 2.10 It confirms the primacy of the development plan in determining planning applications. It confirms that the NPPF must be taken into account in preparing the development plan, and is a material consideration in planning decisions<sup>3</sup>.
- 2.11 It is important to note that within the new NPPF paragraph 173 of the old NPPF has been deleted. The old paragraph 173 referred to viability and required ‘*competitive returns to a willing land owner and willing developer to enable the development to be deliverable*’.
- 2.12 The new NPPF refers increasingly to deliverability rather than viability as follows:

## Development Contributions

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2.13 Paragraph 34 states:

*Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the **deliverability** of the plan. (our emphasis)*

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<sup>2</sup> National Planning Policy Framework, July 2018, para 1

<sup>3</sup> National Planning Policy Framework July 2018, para 2

## Planning conditions and obligations

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2.14 Paragraph 57 states:

*Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.*

- 2.15 We understand that the Government's objective is to reduce the delays to delivery of new housing due to the site-specific viability process that was created as a result of the previous paragraph 173. Once the new policies are adopted no site-specific viability assessment should be required and developers should factor into their land buying decisions the cost of planning obligations (including affordable housing) and CIL (where adopted).

## Planning Policy Guidance for Viability (July 2018)

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- 2.16 The Planning Practice Guidance for Viability was updated at the same time as the NPPF on 24 July 2018. This confirms that for viability and plan making:

*Paragraph: 001 - Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure).*

*These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types of site or types of development.<sup>4</sup>*

- 2.17 The PPG therefore confirms that Local Authorities can set different levels of CIL and/or affordable housing by greenfield or brownfield typologies.

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<sup>4</sup> Paragraph: 001 Reference ID: 10-001-20180724, Revision date: 24 07 2018

- 2.18 The PPG also sets out standardised inputs to viability assessment. See also our detailed methodology and approach in section 4 in this respect.
- 2.19 Paragraph 010 of the PPG describes the principles for carrying out a viability assessment. It stated that, *'viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it' [...]* *'in plan making and decision making viability helps to **strike a balance** between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.'*<sup>5</sup>
- 2.20 The PPG describes how the gross development value and costs should be defined for the purposes of viability assessment (Paragraphs 011 and 012).
- 2.21 Specifically, the PPG describes how land value should be defined for the purposes of viability assessment. In this respect the *'benchmark land value should be established on the basis of the **existing use value (EUV) of the land, plus a premium** for the landowner.'*<sup>6</sup>
- 2.22 The PPG defines EUV as follows:  
*'[...] EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types.'*<sup>7</sup>
- 2.23 The PPG also defines the premium to the landowner:  
*'The premium (or the 'plus' in EUV+) [...] is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.*  
*Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. For any viability assessment data sources to inform the establishment the landowner premium should include market evidence and can include benchmark land values from other viability assessments. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences*

<sup>5</sup> Paragraph: 010 Reference ID: 10-010-20180724, Revision date: 24 07 2018

<sup>6</sup> Paragraph: 013 Reference ID: 10-013-20180724, Revision date: 24 07 2018

<sup>7</sup> Paragraph: 015 Reference ID: 10-015-20180724, Revision date: 24 07 2018

*in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).<sup>8</sup>*

- 2.24 It is important to note that the BLVs contained herein are for 'high-level' plan viability purposes and the appraisals should be read in the context of the BLV sensitivity table (contained within the appraisals). It is important to emphasise that the adoption of a particular BLV £ in the base-case appraisal typologies in no way implies that this figure can be used by applicants to negotiate site specific planning applications. Where sites have obvious abnormal costs (e.g. sloping topography or limited access etc.) these costs should be deducted from the value of the land. The land value for site specific viability appraisals should be thoroughly evidenced having regard to the existing use value of the site in accordance with the PPG. This report is for plan-making purposes and is 'without prejudice' to future site-specific planning applications.
- 2.25 Finally, the PPG also defines developer's return / profit for the purposes of viability assessment: *'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies.'*<sup>9</sup>
- 2.26 In this respect we have provided sensitivities on the profit margin.

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<sup>8</sup> Paragraph: 016 Reference ID: 10-016-20180724, Revision date: 24 07 2018

<sup>9</sup> Paragraph: 018 Reference ID: 10-018-20180724, Revision date: 24 07 2018

## 3 Local Planning Policy Context

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- 3.1 The Northumberland National Park is the northern most National Park in England. It covers an area of more than 410 square miles between the Scottish Border in the North to just south of Hadrian's Wall. The park lies entirely within Northumberland, covering about a quarter of the County.
- 3.2 The current Local Plan for Northumberland National Park comprises of;
- The Core Strategy (March 2009)
  - Development Policies document (2009)
- 3.3 The emerging Local Plan will replace the Core Strategy and Development Policies.
- 3.4 There are a number of 'Supplementary Planning Documents (SPDs) which provide further guidance on how policies will be applied, these include:
- The Building Design Guide SPD (2011)
  - Landscape Strategy SPD (2011)
  - Otterburn Camp SPD (2007)
- 3.5 Collectively, these documents set a spatial planning strategy, policies and guidance for the Northumberland National Park for the current plan period (up to 2024).
- 3.6 The emerging Local Plan has been formed through a series of consultations which has involved the following documents:
- The first round of formal public consultation related to an Issues Paper and was undertaken in the Spring of 2017. The purpose was to begin the process of deciding how development should be managed in the National Park over the next 20 years.
  - The second round of public consultation related to a Local Plan Policy Options Paper (December 2017). It presented a first opportunity for people who live, work and visit in the National Park to provide comments on what they thought should be included in the review of the local planning policies.
  - The third round of public consultation was on the Preferred Options Draft Plan (September 2018.) It sets out the Authority's vision, strategic priorities, spatial objectives and detailed policy options.
- 3.7 In order to appraise the local plan viability, we have analysed each of the new policies in order to determine which policies have a direct or indirect impact on development viability. Those policies with a direct impact on viability have been factored into our economic assessment below. Those policies with an indirect impact have been incorporated into the viability study indirectly through the property market cost and value assumptions adopted (the price mechanism).

- 3.8 It is important to note that all the policies have an indirect impact on viability. The Council's Local Plan sets the 'framework' for the property market to operate within. All the policies have an indirect impact on viability through the operation of the property market and via site allocations which shape supply over time.
- 3.9 A detailed matrix of all the planning policies is appended (Appendix 1). This outlines how the directly influential policies have both shaped our typologies appraised and the assumptions adopted within the appraisals. We highlight the directly influential policies below.

### Preferred Options Draft Local Plan (Reg. 18) Policies

- 3.10 The new Local Plan will set out the spatial strategy and policies for the environment, tourism, land management, and local communities across the whole of the Park for the period 2017-2037.
- 3.11 The policies considered to have a direct influence on viability are:
- Policy 10: Providing a range and choice of housing
  - Policy 12: Affordable Housing
  - Policy 13: Rural Exception Sites
  - Policy 15: Principal Residence Housing
  - Policy 20: Accessibility and Connectivity
  - Policy 22: Wildlife Biodiversity and Green Infrastructure
  - Policy 25: Flood Risk
- 3.12 A detailed analysis of these and all the policies is set out in the policies matrix at Appendix 1.

## 4 Viability Assessment Methodology

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- 4.1 In this section of the report we set out our methodology to establish the viability of the various land uses and development typologies described in the following sections. We also set out the professional guidance that we have had regard to in undertaking the economic viability appraisals and some important principles of land economics.

### The Harman Report (June 2012)

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- 4.2 The Harman report 'Viability Testing Local Plans'<sup>10</sup> was prepared in June 2012 for the purposes of the 2012 NPPF. Many of the themes within the Harman Report have been incorporated into the 2018 PPG Viability guidance and are equally relevant for CIL viability testing.
- 4.3 Our FVA is consistent with both the Harman report and the PPG.
- 4.4 The Harman report refers to the concept of 'Threshold Land Value' (TLV). Harman states that the 'Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development.' While this is an accurate description of the important value concept, we adopt the Benchmark Land Value terminology throughout this report in line with the terminology in the PPG.
- 4.5 It is important to note however, that the Harman report is primarily concerned with the whole of the country and not specifically National Parks. In the restrictive policy context of the National Park, land value is based on a plot value for affordable housing (this is £10,000 per dwelling, whatever the existing use value) reflecting the exceptional circumstances of development in the National Park.

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<sup>10</sup> Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report)

## RICS Guidance (August 2012)

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4.6 The RICS guidance on Financial Viability in Planning<sup>11</sup> was published after the Harman report in August 2012 and is more 'market facing' in its approach. The guidance is currently in the process of review following the decision in the Parkhurst Road Limited v Secretary of State for Communities and Local Government and The Council of the London Borough of Islington High Court case (see below)<sup>12</sup>. However, this case was more about the application of the guidance rather than the guidance itself.

4.7 The RICS Guidance defines 'site value', whether this is an input into a scheme specific appraisal or as a [threshold land value] benchmark, as follows -

*Site value should equate to the **market value** subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan<sup>13</sup> (Box 7) (our emphasis)*

4.8 The guidance also advocates that any assessment of site value will need to consider prospective planning obligations and recommends that a second assumption be applied to the aforementioned definition of site value, when undertaking Local Plan viability testing. This is set out below -

*Site value (as defined above) may need to be further **adjusted to reflect the emerging policy / CIL charging level**. The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted... (Box 8) (our emphasis)*

4.9 As with the Harman report, the RICS guidance is primarily concerned with the whole of the country and not specifically National Parks. In the restrictive policy context of the National Park, land value is based on a plot value for affordable housing (this is £10,000 per dwelling, (whatever the existing use value) reflecting the exceptional circumstances of development in the National Park).

## Land Economics for Rural Exceptions Sites

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4.10 Planning gain e.g. S106 and affordable housing has its roots in the perceived windfall profit arising from the release of greenfield land by the planning system to accommodate new residential sites and urban extensions<sup>14</sup>. However, lessons from previous attempts to tax

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<sup>11</sup> RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012

<sup>12</sup> Parkhurst Road Ltd v Secretary of State for Communities And Local Government & Anor [2018] EWHC 991 (Admin) on BAILII

<sup>13</sup> This includes all Local Plan policies relevant to the site and development proposed

<sup>14</sup> See Barker Review (2004) and Housing Green Paper (2007)

betterment<sup>15</sup> show that this is particularly difficult to achieve effectively without stymieing development. It is even harder to apply the concept to brownfield redevelopment schemes with all attendant costs and risks. The difference between greenfield and brownfield scheme economics is important to understand for affordable housing targets, and plan viability.

- 4.11 The timing of redevelopment and regeneration of brownfield land particularly is determined by the relationship between the value of the site in its current [low value] use (“Existing Use Value”) and the value of the site in its redeveloped [higher value] use – less the costs of redevelopment. Any planning gain which impacts on these costs will have an effect on the timing of redevelopment. This is relevant to consider when setting the ‘appropriate balance’.
- 4.12 Fundamentally, planning gain is a form of ‘tax’ on development as a contribution to infrastructure. By definition, any differential rate of tax will have a distorting effect on the pattern of land uses. The question as to how this will distort the market will depend upon how planning gain is applied.
- 4.13 Also, consideration must be given to the ‘incidence’ of the tax i.e. who ultimately is responsible for paying it i.e. the developer out of profit, or the landowner out of price (or a bit from each).
- 4.14 This is particularly relevant in the context of brownfield sites in the village centres and built up areas. Any ‘tax’ on brownfield redevelopment sites will impact on the timing and rate of redevelopment. This will have a direct effect on economic development, jobs and growth.
- 4.15 In the brownfield context redevelopment takes place at a point in time when buildings are economically obsolete (as opposed to physically obsolete). Over time the existing use value of buildings falls as the operating costs increase, depreciation kicks in and the rent falls by comparison with modern equivalent buildings. In contrast the value of the next best alternative use of the site increases over time due to development pressure in the urban context (assuming there is general economic growth in the economy). Physical obsolescence occurs when the decreasing existing use value crosses the rising alternative use value.
- 4.16 However, this is not the trigger for redevelopment. Redevelopment requires costs to be incurred on site demolition, clearance, remediation, and new build construction costs. These costs have to be deducted from the alternative use value ‘curve’. The effect is to extend the time period to achieve the point where redevelopment is viable.
- 4.17 This is absolutely fundamental for the viability and redevelopment of brownfield sites. Any tariff, tax or obligation which increases the costs of redevelopment will depress the net alternative use value and simply extend the timescale to when the alternative use value exceeds the existing use value to precipitate redevelopment.

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<sup>15</sup> the 2007 Planning Gain Supplement, 1947 ‘Development Charge’, 1967 ‘Betterment Levy’ and the 1973 ‘Development Gains Tax’ have all ended in repeal

- 4.18 Contrast this with the situation for development on greenfield land. Greenfield sites are constrained by the planning designation. Once a site is 'released' for development there is significant step up in development value – which makes the development economics much more accommodating than brownfield redevelopment. There is much more scope to capture development gain, without postponing the timing of development.
- 4.19 That said, there are some other important considerations to take into account when assessing the viability of greenfield sites. This is discussed in the Harman Report<sup>16</sup>.
- 4.20 The existing use value may be only very modest for agricultural use and on the face of it the landowner stands to make a substantial windfall to residential land values. However, there will be a lower threshold [Benchmark Land Value] where the land owner will simply not sell. This is particularly the case where a landowner *'is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations.'*<sup>17</sup> Accordingly, the 'windfall' over the existing use value will have to be a sufficient incentive to release the land and forgo the future investment returns. That said, in the context of the Northumberland National Park, the land value is restricted to a nominal plot value for affordable housing due to the policy constraints.
- 4.21 In the case of Northumberland National Park, the proposed housing sites coming forward are rural exception sites and therefore we have focussed our scheme typologies on these sites. A standard sum of £10,000 per plot has been used across all sites within the National Park. Due to the heavily regulated nature of the National Park, there is no active land market.

## Viability Modelling Best Practice

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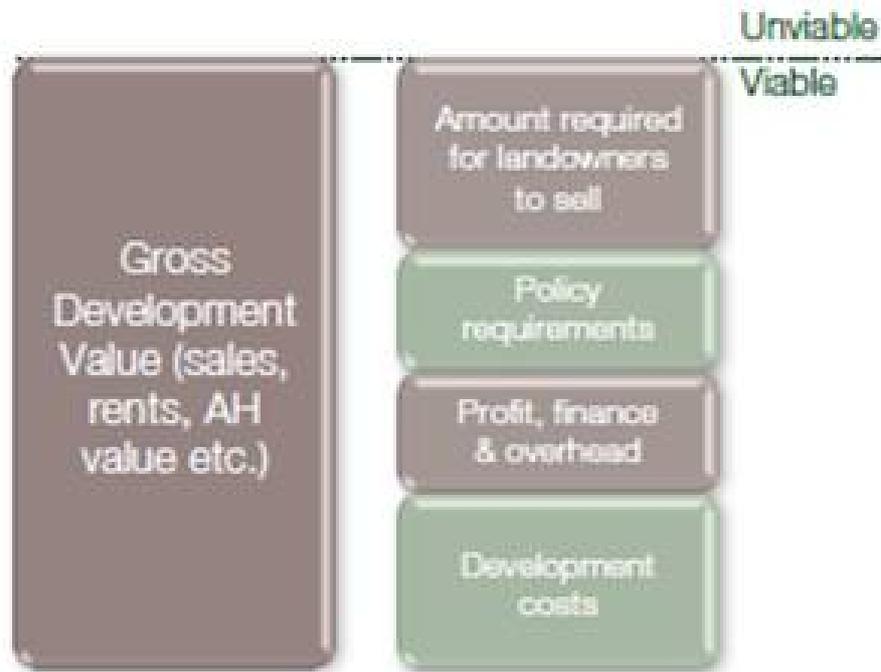
- 4.22 The general principle is that planning obligations including affordable housing (etc.) will be levied on the increase in land value resulting from the grant of planning permission. However, there are fundamental differences between the land economics and every development scheme is different. Therefore, in order to derive the potential planning obligations and understand the 'appropriate balance' it is important to understand the micro-economic principles which underpin the viability analysis.
- 4.23 The uplift in value is calculated using a RLV appraisal. Figure 4.1 below, illustrates the principles of an RLV appraisal.

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<sup>16</sup> Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) pp 29-31

<sup>17</sup> Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30

**Figure 4.1 - Elements Required for a Viability Assessment**

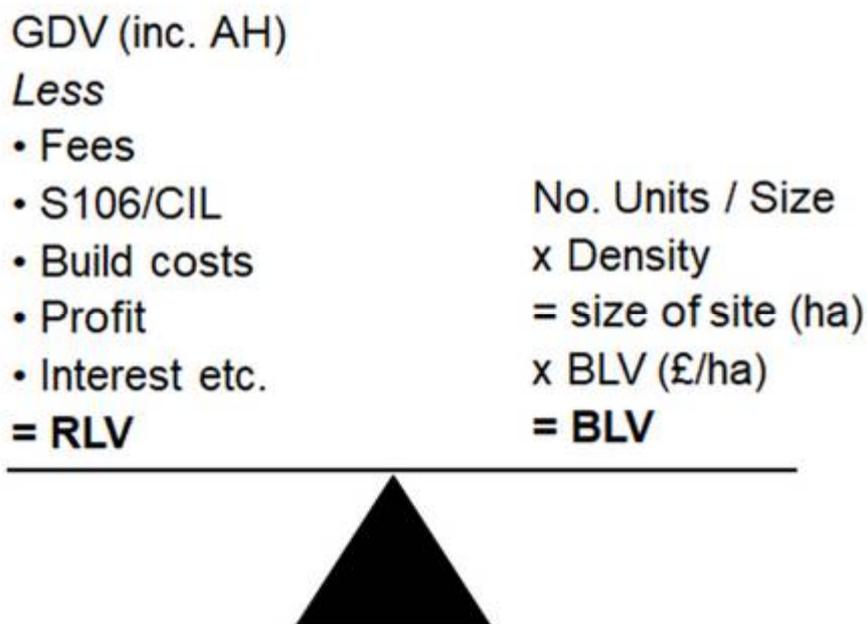


Source: Local Housing Delivery Group, 2012<sup>18</sup>

- 4.24 Our specific appraisals for each for the land uses and typologies are set out in the relevant section below.
- 4.25 A scheme is viable if the Gross Development Value (GDV) of the scheme is greater than the total of all the costs of development including land acquisition, planning obligations and profit. Conversely, if the GDV is less than the total costs of development (including land, S106s and profit) the scheme will be unviable.
- 4.26 However, in order to advise on the ability of the proposed uses/scheme to support affordable housing and planning obligations we have benchmarked the residual land values (RLV) from the viability analysis against the plot value / the Benchmark Land Value (BLV). This is illustrated in Figure 4.2 below.

<sup>18</sup> Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 25

**Figure 4.2 - Balance between RLV and BLV**



Source: AspinallVerdi © Copyright

## How to Interpret the Viability Appraisals

- 4.27 In development terms, the price of a site is determined by assessment of the residual land value (RLV). This is the gross development of the site (GDV) less ALL costs including planning policy requirements and developers' profit. If the RLV is positive the scheme is 'viable'. If the RLV is 'negative' the scheme is not viable. Part of the skill of a developer is to identify sites that are in a lower value economic uses and purchase / option these sites to (re)develop them into a higher value uses.
- 4.28 A scheme is viable if the RLV is positive for a given level of profit. We describe this situation herein as being 'fundamentally' viable.
- 4.29 However, planning policy in England requires that Local Plan policies allow for a 'return to the landowner'. In this respect the 'Benchmark' (BLV) has to be achieved. In the case of the National Park this is a nominal plot value (£10,000 per plot) which has been established to reflect the exceptional circumstances of development in the National Park. Due to the restrictive planning policies of the National Park, there is no active land market.
- 4.30 In planning viability terms, for a scheme to come forward for development the RLV for a particular scheme has to exceed the BLV.

- 4.31 In Development Management terms every scheme will be different (RLV) and every landowner's motivations will be different (BLV).
- 4.32 The results of the appraisals should be interpreted as follows:
- If the 'balance' is positive, then the policy is viable. We describe this as being 'viable for plan making purposes herein'.
  - If the 'balance' is negative, then the policy is not viable for plan making purposes and the planning obligations and/or affordable housing targets should be reviewed. In the case of *this* plan viability assessment we have calculated the level of grant needed to make the site viable.
- 4.33 Thirdly, if the RLV is positive, but the appraisal is not viable due to the BLV assumed – we refer to this as being 'marginal'.
- 4.34 This is illustrated in the following boxes of our hypothetical appraisals (appended). In this case the RLV at £231,700 is some £131,700 higher than the assumed BLV of £100,000 meaning the balance is positive.

**Figure 4.3 - Hypothetical Appraisal, Example of Results**

<b>RESIDUAL LAND VALUE</b>				
Residual Land Value (gross)				20,985
SDLT		20,985 @	5.00% (slabbed)	9,451
Acquisition Agent fees		20,985 @	1.00%	(210)
Acquisition Legal fees		20,985 @	0.50%	(105)
Interest on Land		20,985 @	6.25%	(1,312)
Residual Land Value				<b>28,809</b>
RLV analysis:	28,809 £ per plot	576,181 £ per ha	233,177 £ per acre	
<b>BENCHMARK LAND VALUE</b>				
Residential Density		20.0 dph		
Site Area (Resi)		0.05 ha	0.12 acres	
Density analysis:		1,860 sqm/ha	8,102 sqft/ac	
Benchmark Land Value	10,000 £ per plot	200,000 £ per ha	80,939 £ per acre	<b>10,000</b>
<b>BALANCE</b>				
Surplus/(Deficit)	18,809 £ per plot	376,181 £ per ha	152,239 £ per acre	<b>18,809</b>

Source: AspinallVerdi

- 4.35 In addition to the above, we have also prepared a series of sensitivity scenarios for each of the typologies. This is to assist in the analysis of: the viability and particularly the viability buffer; and the sensitivity of the appraisals to key variables such as Local Occupancy / Principal Residency values; construction costs / build rates; profit on 'market (Local Occupancy / Principal Residency) units and site specific S106 contributions. An example of a sensitivity appraisal and how they are interpreted is shown below.

## Local Occupancy and Principal Residency Values Sensitivity

**Figure 4.4 - Local Occupancy and Principal Residency Values versus Affordable Housing Sensitivity**

Balance (RLV - BLV)	18,809	AH - % on site 100%						18,809
		10%	25%	40%	55%	70%	85%	
80%	21,212	20,862	20,511	20,160	19,809	19,449	18,809	
85%	31,195	29,180	27,166	25,151	23,137	21,113	18,809	
90%	41,178	37,499	33,821	30,142	26,464	22,777	18,809	
95%	51,160	45,818	40,476	35,134	29,792	24,442	18,809	
100%	61,143	54,137	47,131	40,125	33,119	26,106	18,809	
105%	71,125	62,456	53,786	45,116	36,447	27,770	18,809	
Local Occupancy and Principal Residency Values	81,108	70,774	60,441	50,108	39,774	29,435	18,809	
110%	91,090	79,093	67,096	55,099	43,102	31,099	18,809	
115%	101,073	87,412	73,751	60,090	46,429	32,763	18,809	
120%	111,055	95,731	80,406	65,081	49,757	34,427	18,809	
(% from base assumption)	121,038	104,050	87,061	70,073	53,084	36,092	18,809	
130%	131,021	112,368	93,716	75,064	56,412	37,756	18,809	
140%	141,003	120,687	100,371	80,055	59,739	39,420	18,809	
145%	150,986	129,006	107,026	85,046	63,067	41,084	18,809	
150%	160,968	137,325	113,681	90,038	66,394	42,749	18,809	
155%	170,951	145,643	120,336	95,029	69,722	44,413	18,809	
160%	180,933	153,962	126,991	100,020	73,049	46,077	18,809	
165%	190,916	162,281	133,646	105,012	76,377	47,741	18,809	
170%	200,898	170,600	140,301	110,003	79,704	49,405	18,809	
175%	210,881	178,919	146,956	114,994	83,032	51,069	18,809	
180%	220,863	187,237	153,611	119,985	86,359	52,733	18,809	

Source: AspinallVerdi

4.36 This table shows the sensitivity of the balance (RLV – BLV) for different combinations of Affordable Housing (AH %) across the columns and different value assumptions for Local Occupancy and Principal Residency (% from base assumption) down the rows where 100% is the base case value assumption and 105% represents a 5% increase in values and 95% represents a -5% decrease in values and so on.

- You should be able to find the appraisal balance by looking up the base case AH% (100% or 80%) and the base case Values (100%).
- At 100% AH, the 'balance' does not vary according to the value of Local Occupancy and Principal Residency housing as there are no units of this type within the hypothetical scheme.
- Lower % levels of AH will increase the 'balance' and if the balance is positive then the scheme is viable in Plan Making terms.
- Similarly, lower value assumptions (80-95% of base assumption) will reduce the 'balance'. If the balance is negative the scheme is 'not viable' for Plan Making purposes (note that it may still be viable in absolute RLV terms and viable in Plan Making terms depending on other sensitivities (e.g. BLV, Profit (see below))).
- And, higher value assumptions (105-180% of base assumption) will increase the 'balance'.

## Unit Build Rates Sensitivity

**Figure 4.5 - Unit Build Rates versus Affordable Housing Sensitivity**

Balance (RLV - BLV)	18,809	AH - % on site 100%						
		10%	25%	40%	55%	70%	85%	100%
80%	91,807	84,801	77,795	70,789	63,783	56,777	49,771	42,765
85%	84,141	77,135	70,129	63,123	56,117	49,111	42,105	35,099
90%	76,475	69,469	62,463	55,457	48,451	41,445	34,439	27,433
95%	68,809	61,803	54,797	47,791	40,785	33,779	26,773	19,767
100%	61,143	54,137	47,131	40,125	33,119	26,113	19,107	12,101
Unit Build Rates	105%	53,477	46,471	39,465	32,459	25,453	18,447	11,441
100%	45,811	38,805	31,799	24,793	17,787	10,781	3,775	(3,231)
(% from base assumption)	115%	38,145	31,139	24,133	17,127	10,121	3,115	(4,609)
	120%	30,479	23,473	16,467	9,461	2,455	(5,289)	(19,154)
	125%	22,813	15,807	8,801	1,795	(6,046)	(20,393)	(72,769)
	130%	15,146	8,141	1,135	(6,802)	(21,633)	(74,008)	(126,384)
	135%	7,480	471	(7,559)	(22,874)	(75,248)	(127,623)	(179,998)
	140%	(286)	(8,315)	(24,117)	(76,487)	(128,862)	(181,238)	(233,613)
	145%	(9,072)	(25,359)	(77,726)	(130,102)	(182,477)	(234,853)	(287,228)
	150%	(26,601)	(78,966)	(131,341)	(183,717)	(236,092)	(288,468)	(340,843)
	155%	(80,205)	(132,580)	(184,956)	(237,331)	(289,707)	(342,082)	(394,458)
	160%	(133,820)	(186,195)	(238,571)	(290,946)	(343,322)	(396,697)	(448,073)
	165%	(187,435)	(239,810)	(292,186)	(344,561)	(396,937)	(449,312)	(501,688)
	170%	(241,050)	(293,425)	(345,801)	(398,176)	(450,551)	(502,927)	(555,302)
	175%	(294,664)	(347,040)	(399,415)	(451,791)	(504,166)	(556,542)	(608,917)
	180%	(348,279)	(400,655)	(453,030)	(505,406)	(557,781)	(610,157)	(662,532)

Source: AspinallVerdi

- 4.37 This sensitivity shows the potential impact of increases (and decreases) of unit build rates (% from base assumption) on the viability of the scheme typologies.
- 4.38 The sensitivity shows the balance (RLV – BLV) for different combinations of Affordable Housing (AH %) across the columns and different % changes to unit build rates. Similar to the Local Occupancy / Principal Residence sensitivity above, 100% is the base case unit build rates and 105% represents a 5% increase in costs and 95% represents a -5% decrease in costs and so on.
- The Affordable Housing (%) should be interpreted as for the Local Occupancy / Principal Residency Values v AH sensitivity above.
  - Higher construction costs (>100%) result in a lower RLV which reduces the balance.
  - Lower construction costs (<100%) result in a higher RLV which increases the balance.
- 4.39 The sensitivity shows that small increases to the unit build rates can have significant negative impacts on viability.

## Profit Sensitivity

**Figure 4.6 - Profit versus Affordable Housing Sensitivity**

Balance (RLV - BLV)	18,809	AH - % on site 100%							
		10%	25%	40%	55%	70%	85%	100%	
1.0%	72,308	63,441	54,574	45,708	36,841	27,967	18,809	18,809	
2.0%	70,075	61,580	53,086	44,591	36,097	27,595	18,809	18,809	
3.0%	67,842	59,719	51,597	43,475	35,352	27,223	18,809	18,809	
4.0%	65,609	57,859	50,108	42,358	34,608	26,850	18,809	18,809	
Profit on "Market" units	5.0%	63,376	55,998	48,620	41,242	33,863	26,478	18,809	
6.00%	6.0%	61,143	54,137	47,131	40,125	33,119	26,106	18,809	
(% profit)	7.0%	58,910	52,276	45,642	39,008	32,375	25,734	18,809	
	8.0%	56,677	50,415	44,153	37,892	31,630	25,362	18,809	
	9.0%	54,444	48,554	42,665	36,775	30,886	24,989	18,809	
	10.0%	52,210	46,693	41,176	35,659	30,142	24,617	18,809	
	11.0%	49,977	44,832	39,687	34,542	29,397	24,245	18,809	
	12.0%	47,744	42,972	38,199	33,426	28,653	23,873	18,809	
	13.0%	45,511	41,111	36,710	32,309	27,909	23,501	18,809	
	14.0%	43,278	39,250	35,221	31,193	27,164	23,129	18,809	
	15.0%	41,045	37,389	33,733	30,076	26,420	22,756	18,809	
	16.0%	38,812	35,528	32,244	28,960	25,676	22,384	18,809	
	17.0%	36,579	33,667	30,755	27,843	24,931	22,012	18,809	
	18.0%	34,346	31,806	29,266	26,727	24,187	21,640	18,809	
	19.0%	32,113	29,945	27,778	25,610	23,443	21,268	18,809	
	20.0%	29,880	28,084	26,289	24,494	22,698	20,896	18,809	

Source: AspinallVerdi

4.40 This figure shows the sensitivity of the balance (RLV – BLV) for different combinations of Affordable Housing (AH %) across the columns and different amounts of Profit (%) down the rows. Thus:

- The Affordable Housing (%) should be interpreted as for the Local Occupancy / Principal Residency Values v AH sensitivity above.
- At 100% AH, the 'balance' does not vary according to the profit on 'Market' housing (Local Occupancy and Principal Residency housing) as there are no units of this type within the hypothetical scheme.
- Higher levels of Profit (%) will increase the return to the developer, but with a corresponding reduction in RLV and therefore reduce the 'balance' for a given BLV
- Conversely, lower levels of Profit (%) will reduce the return to the developer, and increase the RLV and therefore increase the 'balance' for a given BLV.

- 4.41 As you can see from the above, the typologies are very sensitive to small changes to key inputs and particularly unit build rates. We have also tested a number of typologies representing a number of different sized schemes in the various housing market areas. This has resulted in a large number of appraisal results and exponential number of sensitivity scenarios.
- 4.42 In making our recommendations we have had regard to the appraisal results and sensitivities 'in the round'. Therefore, if one particular scheme is not viable, whereas other similar typologies are highly viable, we have had regard to the viable schemes in forming policy and cross checked the viability of the outlying scheme against the sensitivity tables (e.g. a small reduction in profit, or a small reduction in BLV which is within the margins of the 'viability buffer').

## BLV Caveats

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- 4.43 It is important to note that the BLV's contained herein are for 'high-level' plan/CIL viability purposes and the appraisals should be read in the context of the BLV sensitivity table (contained within the appraisals). The BLV's included herein are generic and include relevant premiums to provide a viability buffer for plan making purposes.
- 4.44 In the majority of normal circumstances, we would expect the RLV of a scheme on a policy compliant basis to be greater than the EUV (and also the BLV including premium) herein and therefore viable.
- 4.45 However, there may be site specific circumstances (e.g. brownfield sites or sites with particularly challenging topography, access or other constraints) which result in a RLV which is less than the BLV herein. It is important to emphasise that the adoption of a particular BLV £ in the base-case appraisal typologies in no way implies that this figure can be used by applicants to negotiate site specific planning applications where these constraints exist. In these circumstances, the site-specific BLV should be thoroughly evidenced having regard to the EUV of the site in accordance with the PPG. This report is for plan-making purposes and is without prejudice to future site-specific planning applications.

## 5 Existing Residential Evidence Base

- 5.1 We have reviewed the existing evidence to identify mix and density assumptions. More detail on residential value assumptions used in the existing evidence base is outlined in the residential market report at Appendix 3.

### Real Site Types – Development Appraisals (June 2016)

- 5.2 Northumberland County Council commissioned the District Valuer Services in June 2016 to undertake viability appraisals of residential site typologies. At the time of undertaking this report, Northumberland County Council was in the process of developing their core strategy. The Council were therefore looking to ensure that through a robust evidence-based assessment, that the Northumberland Core Strategy would be deliverable and achievable.
- 5.3 Table 5.1 below sets out a summary of the sales evidence that was used for the various appraisals across the County. It should be noted that this evidence is of sites that are out-with the National Park.

**Table 5.1 - Summary of Sales Evidence**

Site	Age of comparable	Developer	Number of Transactions	Average price achieved (£ psm)
<b>Ponteland</b>	2014 - 2016	Bellway Homes	28	£2,818
<b>Hexham</b>	2000 - 2009	Unknown	13	£2,031
<b>Prudhoe</b>	2013 - 2016	Gentoo Homes	15	£2,072
<b>Berwick</b>	2015	Hudson Homes	13	£1,834
<b>Wooler</b>	2013 - 2016	Persimmon	14	£1,501
<b>Haltwhistle</b>	2000 -2009	Unknown	5	£1.694
<b>Seaton Delaval</b>	2013 - 2016	Bellway Homes	77	£1,842
<b>Blyth</b>	2014 - 2015	Taylor Wimpey	87	£1,840
<b>Ashington</b>	2014 - 2015	Persimmon	53	£1,661

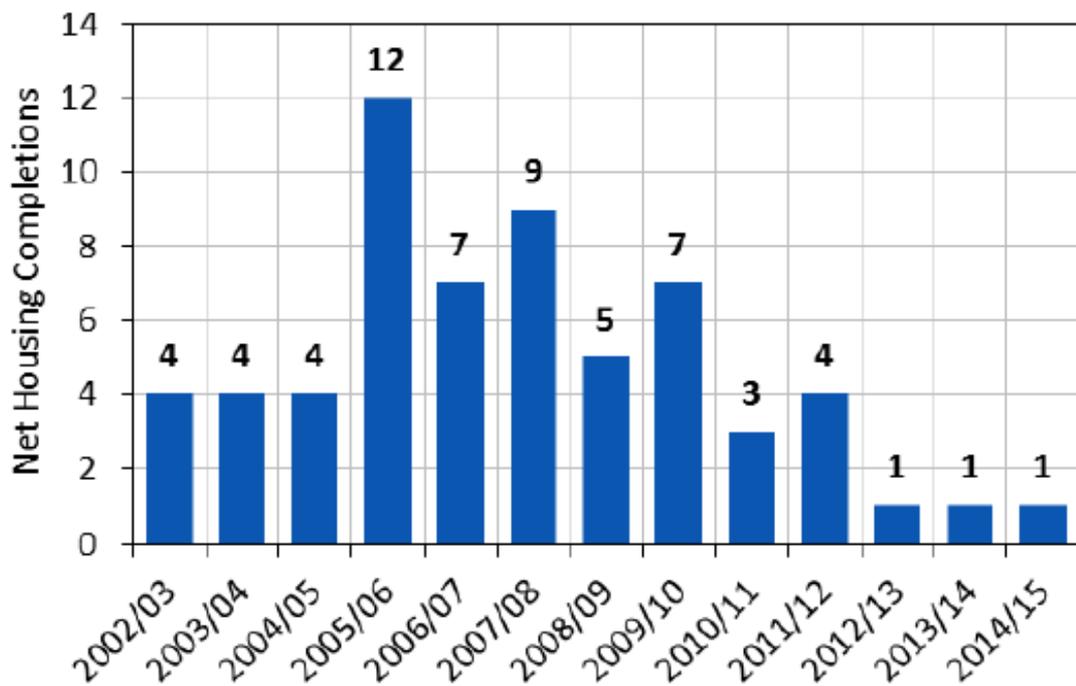
Source: Real Site Types – Development Appraisals - June 2016 (February, 2019).

- 5.4 The District Valuer Services report does not contemplate values within the National Park.

## Northumberland National Park – Demographic Forecasts (July 2016)

5.5 Since 2002/03, 62 dwellings have been built in the Northumberland National Park, with the majority completed between 2005/06 and 2009/10. Whilst the size of the population resident in the National Park has remained relatively stable over the period there was a small amount of population growth between 2005/06 and 2007/08, following the spike in dwelling completions in 2005/06.

**Figure 5.5.1 - Net Housing Completions**



Source: extract from Northumberland National Park Demographic Forecasts – July 2016 (February, 2019).

## Northumberland National Park – SHMA (May 2017)

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- 5.6 The SHMA explores the housing market dynamics of Northumberland National Park, focusing on: demographic and household patterns; economic characteristics; current stock profile and tenure; and housing need.

### Housing Market Area

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- 5.7 The National Park is one of the most sparsely populated areas of the country and exhibits close interactions with the 'gateway' settlements of Wooler, Haltwhistle, Bellingham and Rothbury.
- 5.8 Given the statutorily defined boundary of the National Park, it is an appropriate Housing Market Area for planning purposes.<sup>19</sup>

### Dwelling Mix

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- 5.9 The dwelling mix based on an overall housing requirement of 160 dwellings over the Plan Period (based on the delivery of 8 dwellings each year).
- 5.10 It also assumes an overall requirement for 40 affordable and 120 market dwellings that establishes a 75% market and 25% affordable tenure split.

### Affordable Housing Tenure Split

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- 5.11 Recent studies by arc4 have evidenced tenure splits in the range 55% - 78% for rented and 23% - 45% for intermediate tenure based on household preferences and the relative affordability of intermediate tenure options derived from household surveys.
- 5.12 Additionally, the 2012 Household Survey found that, whilst young people aspire to live independently, they typically have no savings and limited budgets so cannot immediately afford to buy a home of their own.
- 5.13 We discuss our tenure mix in the Section 6.

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<sup>19</sup> Northumberland National Park – SHMA - Page 44

## 6 Residential Typologies

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- 6.1 Our residential typologies which we have tested can be seen at Appendix 2:
- 6.2 They set out as follows:
- typical scheme sizes (1 or 10-unit types);
  - most likely development scenario (e.g. greenfield or brownfield); and,
  - typical constraints. This is to broadly reflect the potential development sites in the National Park.
- 6.3 The number of units on each typology is set to be divisible (as far as possible) between the various tenure types.
- 6.4 We have assumed a development density of 20 dph across all typologies. The only significance of this in terms of the appraisals is to calculate the hypothetical site area for any particular typology (the BLV being based on £ per plot value).
- 6.5 The Typologies Matrix (Appendix 2) shows the specific unit mix and tenure mix for each of the typologies based upon the Local Plan policies and existing evidence base described above.
- 6.6 We have not included infill sites in our typologies as only a small proportion of housing in the National Park comes forward through these developments. Viability on these sites is not usually an issue as typically they are custom or self-build projects, or 'stand-alone' products commissioned by the occupier. Such sites are taken up when the occupier finds them to be economically realistic. Such housing is not required to cross subsidise other development and subsidy or grant would not be required or suitable for a custom or self-build project. We have not included conversions in our typologies as these are by definition bespoke.

## Unit Sizes

- 6.7 For the purposes of our appraisal we have ensured that our assumptions meet or exceed the nationally described housing standards by DCLG. In forming our floor area assumptions to be adopted within the appraisals, the nationally described space standards provide a useful benchmark and are our starting point.
- 6.8 The DCLG minimum floorspace standards are set out on the table below.

**Table 6.1 - Technical Housing Standards**

Number of bedrooms(b)	Number of bed spaces (persons)	1 storey dwellings	2 storey dwellings	3 storey dwellings	Built-in storage
1b	1p	39 (37) <sup>2</sup>			1.0
	2p	50	58		1.5
2b	3p	61	70		2.0
	4p	70	79		
3b	4p	74	84	90	2.5
	5p	86	93	99	
	6p	95	102	108	
4b	5p	90	97	103	3.0
	6p	99	106	112	
	7p	108	115	121	
	8p	117	124	130	
5b	6p	103	110	116	3.5
	7p	112	119	125	
	8p	121	128	134	
6b	7p	116	123	129	4.0
	8p	125	132	138	

Source: Technical housing standards – nationally described space standard (March, 2015)

- 6.9 The DCLG standards set out a complex matrix of house types and storey heights. We have therefore had to simplify this for our analysis and also taken into consideration the feedback received from Registered Providers at our Stakeholder Consultation event.

6.10 **Error! Reference source not found.** below provides a summary of our assumptions:

**Table 6.2 - Floorspace assumptions**

<b>Property Type</b>	<b>Sqm</b>
1-Bed House	60
2-Bed House	75
3-Bed House	85
4-Bed House	118

Source: AspinallVerdi (March, 2019)

## 7 Residential Value Assumptions

- 7.1 This section sets out our residential value assumptions. It should be read in conjunction with the residential market review paper (Appendix 3).
- 7.2 We have carried out a review of postcodes in the National Park (many of which overala into Northumberland) with particular emphasis on:
- Reviewing new-build achieved values – our market research identified 72 new build properties which had sold between 1<sup>st</sup> November 2017 and 1<sup>st</sup> November 2018. As evidenced in Figure 4.1, these transactions all occurred outside of the Authority boundary.
  - Reviewing new-build asking prices – our market research identified four developments which are currently onsite and have listings on agent and developers’ websites.
  - Reviewing second-hand detached, semidetached and terraced properties sold between November 2017 and November 2018. This was to identify whether or not the Authority had housing value zones which could be used to assist our value assumptions.
- 7.3 We have adopted the following sales values for market housing within our appraisals.

**Figure 7.1 - Absolute Value (£) Assumptions**

No of Beds	Floor Area	Market Value (MV)	Principal Residency	Local Connection	Affordable Rent	LCHO (Shared Ownership)
			95%	80%	70%	60%
1	60	£190,000	£180,500	£152,000	£133,000	£114,000
2	75	£215,000	£204,250	£172,000	£150,500	£129,000
3	85	£300,000	£285,000	£240,000	£210,000	£180,000
4	118	£425,000	£403,750	£340,000	£297,500	£255,000

Source: AspinallVerdi (February, 2019)

**Figure 7.2 - £ psm Value Assumptions**

No of Beds	Floor Area	Market Value (MV)	Principal Residency	Local Connection	Affordable Rent	LCHO (Shared Ownership)
			95%	80%	70%	60%
1	65	£2,923	£2,777	£2,338	£2,046	£1,754
2	75	£2,867	£2,723	£2,293	£2,007	£1,720
3	85	£3,529	£3,353	£2,824	£2,471	£2,118
4	118	£3,602	£3,422	£2,881	£2,521	£2,161

Source: AspinallVerdi (February, 2019)

- 7.4 The Market Values represent unencumbered market values based on the evidence set out above. These values are then discounted to arrive at our assumptions for Principal Residency homes (95% of Market Value); Local Connection (80% of Market Value), Affordable Rent homes (70% of Market Value); and, Low Cost Home Ownership (60% of Market Value).
- 7.5 These values were the subject of stakeholder consultation (on 25th March 2019) and updated as a consequence of stakeholder feedback received (see Appendix 4 – Stakeholder Consultation).

## 8 Residential Cost Assumptions

- 8.1 The development costs adopted within our appraisals are evidenced (where necessary) and set out below. Note that we consulted with stakeholders on these assumptions at the workshop on 25th March 2019 (see Appendix 4 – Stakeholder Consultation)

### Initial Payments

- 8.2 Table 8.1 below shows the ‘up-front’ costs prior-to or at start-on-site.

**Table 8.1 - Residential Appraisals Initial Cost Assumptions**

Item	Comment
Planning Application Professional Fees and Reports	Allowance for typology.
Statutory Planning Fees	Based on national formula.
CIL	Not Applicable in Northumberland National Park.
Site-Specific S106 Contributions	Site Specific Allowance for typology. We have made an allowance of £1,000 per unit for Section 106 / Section 278 costs and provide sensitivities upwards and downwards of this.

Source: AspinallVerdi (January 2019)

### Construction Costs

- 8.3 Table 8.2 summarises our build cost assumptions.

**Table 8.2 - Build Cost Assumptions**

Item	Cost	Comments
Demolition / Site Clearance	£100,000 per acre	For brownfield typologies we have made an allowance for site clearance / demolition.
Housing units	£1,500 psm	Based on analysis of benchmarks (BCIS)
External Works (on plot)	15%	Plot external works sympathetic to the National Park location
Site Wide infrastructure costs	20%	Site wide infrastructure costs. These would normally be bespoke to a particular development.

Item	Cost	Comments
Contingency	3% of the above construction costs	Note that known abnormal costs would be deducted from the price of the site.

Source: AspinallVerdi (January, 2019)

## Other Cost Assumptions

- 8.4 Table 8.3 below summarises all the other costs which have factored into the appraisals (**Error! Reference source not found.**).

**Table 8.3 - Other Cost Assumptions**

Item	Cost	Comments
Professional Fees	6.5%	These are construction related professional fees as opposed to the 'Planning Application Professional Fees and Reports' professional fees included above at the feasibility stage.
Disposal Costs	1.0% (Sale Agents) 0.5% (Sales Legal Fees) 3.0% (Marketing & Promotion)	These are in relation to the 'market housing' only (Local Occupancy / Principal Residency). They are not applicable for affordable housing by a Registered Provider.  Note that the disposals have to be considered 'in-the-round' with the sales values and gross profit (where developers have internal sales functions).
Finance Costs	6.25% interest rate	Applies to 100% of cashflow to include Finance Fees etc.

Source: AspinallVerdi (January 2019)

## Developers Profit Assumptions

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- 8.5 For the purposes of this EVA we applied a baseline profit of 6% to the 'market housing' and affordable housing.
- 8.6 Note that the Planning Practice Guidance for Viability, July 2018 states that:
- For the purpose of plan making an assumption of 20% of Gross Development Value (GDV) may be considered a suitable return to developers in order to establish viability of the plan policies. A lower figure of 6% of GDV may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces the risk. Alternative figures may be appropriate for different development types e.g. build to rent. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development.*
- 8.7 However, if you apply 15-20% profit margins are on the 'market housing' values (i.e. the Local Connection / Principal Residence units), this has a significant impact on the ability of the 'market housing' to cross-subsidise the affordable units and would result in a greater grant being required. We have therefore applied 6% profit regardless of the tenure (i.e. the 'market housing' is to fund the affordable housing not developers' profit). This was the subject of discussion at the stakeholder workshop on 25<sup>th</sup> March 2019.
- 8.8 It is important to note that it is good practice for policy obligations not to be set right up to the margins of viability. However, in certain circumstances developers will agree lower profit margins in order to secure planning permission and generate turnover. The sensitivity analyses within the appendices show the 'balance' (i.e. RLV – BLV) for developer's profit from 1% to 20% on the Local Occupancy / Principal Residency turnover. This clearly shows the significant impact of profit on viability.

## 9 Residential Land Value Assumptions

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- 9.1 As set out above in section 4, in the context of the Northumberland National Park, the land value is restricted to a nominal plot value for affordable housing due to the policy constraints.
- 9.2 The Benchmark Land Value (BLV) assumed is the same across the National Park and is based on a single plot value of £10,000 per dwelling. This is the same whatever the existing use value (previous use, in the context of vacant sites) reflecting the exceptional circumstances of development in the National Park and that 'market' housing is only permitted to allow the development of affordable housing.
- 9.3 Based upon a development density of 20 dph, the BLV of £10,000 per plot represents £200,000 per hectare / £81,000 per acre. This is a significant premium over agricultural values which is currently in the region of £7,000 per acre according to the Knight Frank Farmland Index Q1 2019.

## 10 Viability Results and Conclusions

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- 10.1 We set out below the results of our viability appraisals. For ease of reference, the results are grouped by tenure mix and follows our typologies matrix. Where necessary, we provide comments on any nuances in the results.
- 10.2 The residential appraisals are appended in full at Appendix 5. These include a summary table at the end of each group of appraisals (as described below).

### Typologies A – H: 100% Affordable Housing

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- 10.3 These schemes assume 100% affordable housing (with no 'market housing') split as follows:
- 60% Affordable Rent @ 70% Market Value
  - 40% LCHO @ 60% Market Value.
- 10.4 The Benchmark Land Value (BLV) is £10,000 per plot.
- 10.5 Profit is included @ 6% contractor's margin.
- 10.6 Typologies A - D are greenfield typologies ranging between 1 and 10 units and are all fundamentally not viable without grant i.e. the RLV of the scheme is negative irrespective of the low TLV. They require grant funding of between £20,733 per unit and £35,826 per unit.
- 10.7 Typologies E - H are brownfield typologies ranging between 1 and 10 units and are all fundamentally not viable without grant i.e. the RLV of the scheme is negative irrespective of the low TLV. They require grant funding of between £33,444 per unit and £49,351 per unit.
- 10.8 On the basis that Homes England has funding of this magnitude (subject to the detailed business case being made by the Registered Provider's), these are otherwise viable.

### Typologies I – P: 20 / 33% Affordable Housing

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- 10.9 These schemes assume between 20% and 33% affordable housing split as follows:
- 50% Affordable Rent @ 70% Market Value
  - 50% LCHO @ 60% Market Value.
- 10.10 The remaining units are 100% Principal Residency.
- 10.11 The Benchmark Land Value (BLV) is £10,000 per plot.
- 10.12 Profit is included @ 6% contractor's margin.
- 10.13 Typologies I - L are greenfield typologies ranging between 1 and 10 units and are all viable without grant. Note we have not tested Typology I given it only has one unit.

10.14 Typologies M - P are brownfield typologies ranging between 1 and 10 units and are all viable without grant. Note we have not tested Typology I given it only has one unit.

### Typologies Q – X: 20 / 33% Affordable Housing

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10.15 These schemes assume between 20% and 33% Affordable Housing:

- 50% Affordable Rent @ 70% Market Value)
- 50% LCHO @ 60% Market Value

10.16 The remaining 'market' units are split:

- 50% Local Connection (80% MV)
- 50% Principal Residency (95% MV)

10.17 Note that the unit mix is skewed towards the larger bed units as the Principal Residency and the smaller bed units as the affordable.

10.18 The Benchmark Land Value (BLV) is £10,000 per plot.

10.19 Profit is included @ 6% contractor's margin.

10.20 Typologies Q -T are greenfield typologies ranging between 1 and 10 units and are all viable without grant. Note we have not tested Typology Q given it only has one unit.

10.21 Typologies U - X are brownfield typologies ranging between 1 and 10 units and are all fundamentally not viable without grant i.e. the RLV of the scheme is negative irrespective of the low TLV. Note we have not tested Typology U given it only has one unit. They require grant funding of between £32,108 per unit and £65,731 per unit. This illustrates the impact of the Local Connection rather than Principal Residency 'market' housing.

## Conclusion

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10.22 In conclusion, typologies A - H which assume 100% affordable housing are fundamentally unviable without grant funding. They require grant funding of between £33,444 per unit and £49,351 per unit.

10.1 Typologies I - P test a lower percentage of affordable housing with the introduction of 'market housing' Principal Residency on both brownfield and greenfield land. All are viable without grant.

10.2 Typologies Q - T are greenfield typologies with Local Occupancy as well as Principal Residency and are all viable without grant.

10.3 In addition, typologies U - X which are brownfield typologies with Local Occupancy are fundamentally unviable without grant. They require grant funding of between £32,108 per unit and £65,731 per unit.

- 10.4 Assuming that Homes England has funding of this magnitude (subject to the detailed business case being made by the Registered Providers), the Plan is viable.
- 10.5 We recommend that, in accordance with best practice, the plan wide viability is reviewed on a regular basis to ensure that the Plan remains relevant as the property market cycle(s) change. Our sensitivities demonstrated that the schemes are sensitive to increases in build rate, therefore particular attention should be paid to monitoring construction costs.

## Appendix 1 – Policies Matrix

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## Appendix 2 – Typologies Matrix

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## Appendix 3 – Residential Market Report

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## Appendix 4 – Stakeholder Workshop Slides

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## Appendix 5 – Residential Appraisals

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