



WHITE PEAK Planning

Matter 8 Hearing Statement: The Housing Strategy: Affordable Housing (Policies SP8 and HS2), Housing Mix (Policy HS3) and Supported, Sheltered and Older Persons Housing (Policies SP8, HS4 and HS6)

North Hertfordshire Local Plan Examination

On behalf of Bloor Homes and The Crown Estate

November 2017

Ref: 2012.002

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Bloor Homes and The Crown Estate

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Authorised for and on behalf of White Peak Planning Ltd.

A handwritten signature in black ink, appearing to read 'Rob White', written over a horizontal line.

**Rob White
Director**

This report takes into account the particular instructions and requirements of our client. It is not intended for and should not be relied upon by any third party. Any such party relies on this report at their own risk.



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1.0 Introduction

1.1 Background

- 1.1.1 Bloor Homes and the Crown Estate control a substantial tract of land within the area identified in the Local Plan submission version as the Land East of Luton allocation (refs: EL1, EL2 and EL3).
- 1.1.2 Bloor Homes has submitted an outline planning application to North Hertfordshire District Council (NHDC) for the majority of sites EL1 and EL2 (ref: 17/00830/1) for up to 1,400 new homes.
- 1.1.3 The Crown Estate has submitted an outline planning application to NHDC (ref: 16/02014/1) for 660 new homes covering Site EL3.
- 1.1.4 The application documents can be viewed on the Council's website via the following link: <http://pa.north-herts.gov.uk/online-applications/>.
- 1.1.5 Bloor Homes and The Crown Estate have actively participated in the preparation of Local Plans for both North Hertfordshire and Luton for a number of years. Consistently, the development proposals for a strategic urban extension to the east of Luton have been favourably considered in assessments of how best to accommodate the future development needs of Luton, for which it is accepted that these cannot be met entirely within Luton's own administrative boundary.
- 1.1.6 As set out in previous representations to the Local Plan process, we **object** to Policies SP8 and SP2 as currently worded and our responses to the questions posed by the Inspector are thus set within this context.

2.0 Responses to Inspector's Questions

2.1 Issue 8.5

- 2.1.1 Issue 8.5(c) questions whether Policy HS2 should state that the targets for affordable housing should be met unless it is demonstrated that it is not viable to do so.
- 2.1.2 We have previously objected to Policies SP8 and HS2 and agree that Policy HS2 should include a statement with regards to viability as it is currently inconsistent with Policy SP8, clause (f) which states *'[We will] support a range of housing tenures, types and sizes measured against targets to provide: i. 33% of all homes over the plan period as Affordable Housing for local needs with targets to deliver up to 40% Affordable Housing where viable [emphasis added]'*.
- 2.1.3 Although Policy SP8 states that the target is to deliver up to 40% affordable housing where viable, Policy HS2 simply states that sites of 25 or more dwellings will be required to provide 40% affordable housing.
- 2.1.4 It is important that flexibility is built into the wording of Policy HS2 to account for viability and this is supported by the following viability assessments undertaken by the Council during various stages of Local Plan process:
- Whole Plan Viability Assessment – North Hertfordshire Local Plan Emerging Preferred Options Draft (November 2014, ref: DSP 13204) (extracts included in *Appendix A*); and
 - Local Plan Viability Assessment – Update (August 2016, ref: DSP15385) (Examination Document TI2).
- 2.1.5 Report DSP 13204 identifies that lower market sales values are likely to the east of Luton and north of Stevenage and suggests that the level of affordable housing to be delivered east of Luton should be between 20% and 40%, based on the results of future detailed viability testing.
- 2.1.6 This was acknowledged in paragraph 6.29 of OLP5 which also stated that *'it is considered the best way of striking the right balance between necessary infrastructure and affordable housing is through the master planning work envisaged in Policy ID2: Masterplans'*.
- 2.1.7 Paragraph (x) of the Executive Summary for TI2 states that:
- 2.1.8 *'An affordable housing policy for up to 40% is likely to be deliverable on a majority of strategic sites although the results from potential East of Luton and North of Stevenage strategic sites suggest consideration of the collective impact and priorities between affordable housing and other s106 may be required. We do not consider that there is anything unusual in these findings, which reflect our wider experience.'*
- 2.1.9 Paragraph 3.4.7 of TI1 also states that:

-
- 2.1.10 *'It is possible that where robust justification is provided by a developer, the Council may need to review viability in specific circumstances. This may involve working with the development industry to ensure optimum delivery in areas such as affordable housing and its tenure mix, the degree to which additional sustainability measures (e.g. beyond building regulations requirements prevailing at any point) and / or other matters, etc., might be accommodated given detailed review at appropriate points.'*
- 2.1.11 In addition and taking into account the proximity of Sites EL1, EL2 and EL3 to Luton, it should be noted that Policy LP 16 of the recently examined Luton Local Plan only requires the provision of 20% affordable housing.
- 2.1.12 On the basis of the above, we maintain our objections to Policies SP8 and HS2 and request that the wording is amended to include the following:
- 'For Sites EL1, EL2 and EL3, a minimum of 20% affordable housing shall be delivered, with the final amount to be agreed with the Council at the planning application stage, subject to masterplanning and viability testing.'*
- 2.1.13 Subject to inclusion of the above wording in Policies SP8 and HS2, we would remove our objection.

Appendix A – Whole Plan Viability Assessment (No Appendices)

North Hertfordshire District Council

**NORTH HERTFORDSHIRE
DISTRICT COUNCIL**



**Whole Plan Viability Assessment – North
Hertfordshire Local Plan Emerging Preferred
Options Draft**

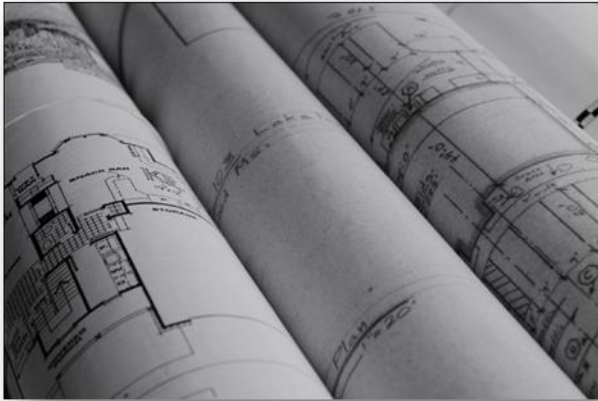
Ref: DSP 13204

Final Draft Report

November 2014

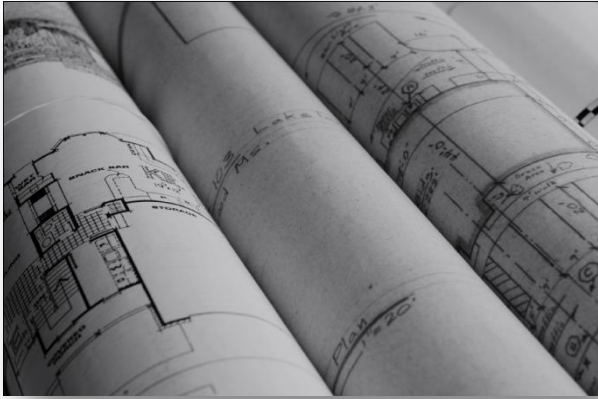
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Executive Summary

The following summary is set out in sections 1 to 6, over the next 8 pages (labelled iii to x). This outlines briefly the context, work undertaken and findings following the completion of a Viability Assessment for North Hertfordshire District Council (NHDC) by Dixon Searle Partnership (DSP).

The full reporting follows detailed liaison with the Council's Officers from inception through emerging and draft assessment findings stages. The assessment forms a key part of the Council's evidence base that, collectively, informs and supports the consideration and further development of the new Local Plan policies – current Preferred Option stage. Associated with the planned development of the area, in addition the assessment

1. Project scope

Essentially the purpose of this assessment is to:

- i. Provide viability evidence base to inform and, so far as the Council's influence extends, ensure deliverability of development identified that will be identified through the new Local Plan.
- ii. Provide recommendations on the appropriate level of affordable housing and wider planning obligations in the District, whilst maintaining viable development, considered as part of the collective (overall) costs of development.

2. National Planning Context

The National Planning Policy Framework (NPPF) requires and provides for:

- i. Local Plans to be deliverable; identified development should not be subject to such a scale of obligations and policy burdens that viability is impacted to the point of the plan delivery as a whole being threatened.

- ii. Assessment of the cumulative impact of existing and proposed local and national standards alongside usual development costs; those should not put at serious risk the implementation of the Plan.

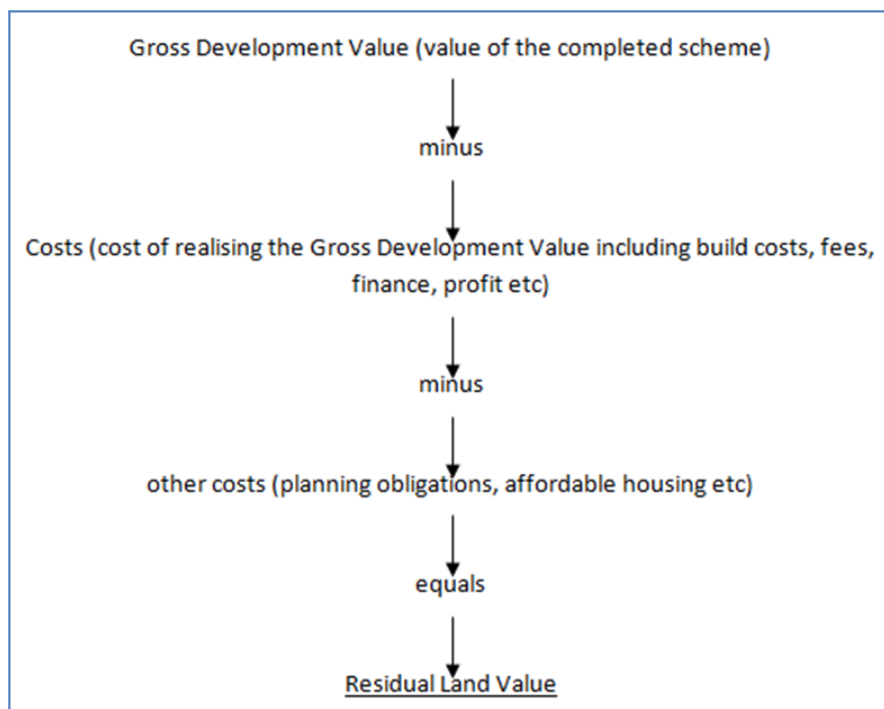
3. Viability assessment – principles

- i. It is accepted that not all development may be viable either before or after the impact of planning policies and obligations are taken into account – what counts is that delivery of the Local Plan, as a whole, will not be put at undue risk through the influence of requirements that place too high a level of collective costs on developments (through the policies, planning obligations and, where applicable, CIL levels acting in combination).
- ii. The assessment provides appropriate, proportionate evidence. As required and consistent with DSP's extensive work on strategic level viability, the assessment provides a high-level overview based on a combination of scenarios locally specific research used to inform a large number of suitably representative development appraisals.
- iii. In very basic terms, through the study the key feature that we are looking at is the strength of relationship between development values and costs across a range of local circumstances.

4. Study methodology – principles and brief outline

- i. The viability of a scheme is based on *'the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project'* (RICS Guidance – *'Financial Viability in Planning'* - August 2012).
- ii. This means that there needs to be sufficient land value and profit scope once all the costs of development have been met. The assumptions take into account planning obligations including affordable housing but also any other policy requirements that may have a cost impact on development – e.g. sustainability, density, unit mix, affordable housing type / tenure, etc.

- iii. The same principles apply equally for the commercial / non-residential assessment elements, whereby the review process provides information on the viability of a further range of relevant development types associated with the economic and employment growth aspects of the local plan development work.
- iv. The methodology basis is the same for all parts of the study – it uses residual land valuation techniques.
- v. The assessment process involves calculating the residual land value (RLV) produced by a range of scheme types and sizes (including non-residential) and comparing the results to benchmark land values (a range of land value comparisons).
- vi. This allows a review of the general viability picture and from it we are able to look in detail at the impacts of the policy proposals on affordable housing and a range of other matters, so as to advise the Council on the scope within North Hertfordshire to support these.
- vii. The process may be visualised as follows (see the following diagrams – steps 1 and 2):



5. Findings and Recommendations for North Hertfordshire DC

Values underpinning development

- i. As seen through all viability assessment and scheme delivery scenarios, and not just in this District, the local values (property prices) available to support development viability (i.e. support the development costs including planning policy obligations) are the key driver of development viability. They are the main influence in the all-important strength of relationship between values and costs, since relatively speaking many of the development costs are usually less variable from one area to another.
- ii. In high level terms appropriate to this assessment and the North Hertfordshire whole plan emerging delivery proposals, as well as to any CIL implemented here, new-build housing values are considered to be relatively consistent between the main towns – particularly between Letchworth Garden City, Baldock, Royston and to some extent Hitchin, which along with the villages also produces some of the highest values found in the District.
- iii. There will always be some degree of market sales values variation, seen at a local and even site-specific level. However, in this case the only key variation for the whole plan viability picture is considered to be the typically lower values that are likely to underpin viability and be available to support planning obligations at two of the areas being considered for strategic scale urban extensions – east of Luton and north/north east of Stevenage. Besides those scenarios, a fairly consistent level of reasonably strong values supporting on the whole very positive viability outcomes is seen.

Main outcomes – Preferred Options stage Local Plan

- iv. The report detail advises that further viability review work be carried out as more information becomes available and if necessary to support the detailed delivery progress at the strategic locations – including and probably needing to be focused most on east of Luton and north of Stevenage. This should build on the current work to further inform with appropriate expectations on collective planning obligations (more on this below). Some level of compromise and prioritising of requirements may be needed in arriving at the optimal planning obligations packages.

- v. So, subject to the usual delivery stage detailed considerations including if needed the adaptable use of affordable housing (AH) and other policy targets, the range of outcomes shows the potential for housing development to continue to be viable and to come forward here on the basis of the Preferred Option Plan policy development work to date.

Affordable housing target proportions

- vi. On the basis of the site supply picture being based very significantly on greenfield land, and recommended flexible application as needed, the proposed 40% headline affordable housing Preferred Option approach looks to be workable. Based on information review, the Council's delivery track record suggests the same in general. This does not mean that with this in place it will always be deliverable in full, but we consider it to represent a suitable target on this basis – as a part of the balance with the level of AH needs and the other infrastructure requirements.
- vii. We have also made further suggestions that might be considered by the Council on affordable housing. These include the possibility that a more lenient approach of a 20% AH target might be considered at 10 to 14 dwellings (the first point of the proposed AH policy impact); 30% at 15 to 24. However, the main points around any potential variation to the positions proposed by the Council are that the policy should be framed and applied as a target; and the likely need for further review of the collective costs associated particularly with the lower value locations for Strategic development – as noted above.

Wider planning obligations

- viii. Again based on the site supply theme and our findings, we consider that the planning obligations funding scope from most scenarios could be up to around the upper level / parameter tested here – at a level equivalent to approximately a £140/sq. m in CIL equivalent terms (i.e. collected based on the private dwellings only). If taken further in a CIL context, this would need to be considered closely on further review to ensure that adequate scope remained alongside CIL for any residual s.106 requirements on sites, and any other costs.

- ix. The parameters for any potential residential CIL here remain broadly similar to those found from our previous work – range potentially in the order of the assumptions used here for the lower (approximately £70/sq. m) and higher tests as above. On more detailed review for this, consideration might be given to any appropriate differentiation in respect of type and scale of development use and any necessary zoning / location variation; in each case based on viability. The large scale strategic urban extensions and the smallest (sub-AH policy threshold) sites may need differential treatment owing to the fixed (non-negotiable) nature of CIL charging and collective development costs and policy impacts.
- x. This theme extends to the potential further consideration of other Local Plan policy areas, such as on housing standards / sustainability. We have noted the Government's current Housing Standards Review. Given the likely further standardisation of requirements and the continuing development of the building regulations, in general our recommendation is for the Council to develop policy detail that encourages - rather than requires - the inclusion of measures going beyond the developing national policy backdrop.

Commercial and other development

- xi. In terms of the Local Plan considerations for non-residential property development aligned to the key Economy and Town Centre ('ETC') policies, our assessment indicates the current and probable short-term challenge around delivery of significant new development to support these objectives. This is primarily as a result of the still settling wider economic backdrop. Whilst commercial property market conditions are now picking-up, there appears to be some way to go before a more widespread return to development activity relevant to this District will be seen.
- xii. Looking at commercial development, the Council's themes of promoting and encouraging development have a focus on the main towns and acknowledge the role of the villages too. The generally poor current stage viability results from the scenarios other than those representing large format retail (supermarkets, superstores, retail warehousing), and especially those for the B (business/employment) use class types, are not unusual in DSP's wide experience of undertaking viability assessment and review work. They do not necessarily mean that development will not be delivered. Rather, the outcomes are based on the assumptions and approach necessary for this assessment.

- xiii. The findings provide further clear indications of the limited CIL charging scope beyond residential development (if CIL were to be introduced in the near future); likely to be limited to larger format retail (supermarkets and retail warehousing) and with other forms of retail (including town centre and smaller shops) not supporting wider charging scope as viewed at this time.
- xiv. Whilst not a core purpose of our assessment, the report also notes the type of strategies that could be considered as part of this encouragement given to and facilitating of a range of development when opportunities arise.
- xv. We have not considered there to be any Preferred Options stage policies that are likely to act in a negative way in terms of viability impact on commercial and other development. The policies seek to promote appropriate development in a range of locations. The viability issues seen are inherent in the strength of relationship between the development costs and values in many of these scenarios; they are in the main outside the scope of the Council's influence in our view.
- xvi. As with all aspects of this study, the above should be kept under review as the Council monitors delivery progress.

**Executive Summary ends – DSP Final Draft.
November 2014.**

Main report text follows.

1 Introduction

1.1. Introduction to the Study

1.1.1 The purpose of this report is to provide viability advice associated with the North Hertfordshire Local Plan (Preferred Options).

1.1.2 The study feeds into the development of the Council's emerging Local Plan in terms of testing the viability of emerging policies to ensure that the scale of development identified in the plan would not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened.

1.2. North Hertfordshire District Profile and Background

1.2.1. North Hertfordshire District Council (NHDC) is currently in the process of introducing a new Local Plan which sets out the strategic policies to guide development within the District until 2031. It sets targets for new homes, employment and retail development and identifies areas of land where these developments should be built. It also considers what infrastructure is needed to support development. The Local Plan Policies will be used for making decisions on planning applications.

1.2.2. North Hertfordshire District is in the northern part of Hertfordshire following the chalk-escarpment of the Chiltern Hills, from the Bedfordshire boundary at Luton in the south-west to the Cambridgeshire and Essex boundaries around Royston to the north-east.

1.2.3. The vast majority of land in North Hertfordshire is countryside. Whilst nearly 77% of the district's homes are in the towns, the land area of the towns covers less than 7% of the district. The remainder is rural in some form – either designated as identified villages, green belt or rural area beyond the green belt. The four main towns are Baldock, Hitchin, Letchworth and Royston.

1.2.4. The plan caters for growth of an additional 14,200 dwellings over the period 2011-2031. The plan also encourages jobs growth of 3,600 additional jobs. Evidence has been used in order to identify the development sites which meet the needs of the strategic growth proposal in the District.

- 1.2.5. Of the 14,200 dwellings, 12,100 are assessed as being required to meet North Hertfordshire District Council's own need; the remaining 2,100 dwellings have been assessed as being required to meet Luton Borough Council's unmet need for housing. Of the 12,100 dwellings required for North Hertfordshire, completions, planning permissions (as of 1st April 2014) and a windfall allowance account for approximately 2,000 dwellings. This leaves approximately 10,000 new dwellings to be provided in North Hertfordshire, for North Hertfordshire's own needs in the period to 2031. In addition, should an unmet need from Stevenage Borough arise during the plan period, land for up to 3,100 dwellings has also been identified (not counting towards the 14,200 dwellings mentioned above).
- 1.2.6. The Council currently expects to consult on the preferred options draft Local Plan in December 2014 / January 2015.
- 1.2.7. The National Planning Policy Framework (NPPF) sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options which reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.
- 1.2.8. The NPPF provides specific guidance on ensuring Local Plan viability and deliverability, in particular, paragraphs 173-174 state:

'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.'

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 cycle¹.

1.2.9. The Local Housing Delivery Group report entitled Viability Testing Local Plans (known as the “Harman Report”) provides advice to practitioners and was developed to cover the core principles of Local Plan viability testing and guidance on how sound assumptions can be made. The key principles include:

- Consideration of the cumulative impact of the plan policies.
- Ensuring a balance is struck between the policy requirements necessary to provide for sustainable development and the realities of economic viability. Making an informed and explicit choice about the risks to delivery is a key outcome of the assessment of Local Plan viability – supported by a collaborative approach. The best plans are also regularly reviewed to test the policies adopted to ensure the plan remains viable and deliverable.
- Viability assessments of Local Plans should therefore be seen as part of the wider collaborative approach to planning and a tool that can assist with the development of plan policies, rather than a separate exercise.
- The approach to assessing plan viability should recognise that it can only provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability. It cannot guarantee that every development in the plan period will be viable, only that the plan policies will be viable for the sufficient number of sites upon which the plan relies in order to fulfil its objectively assessed needs.
- The assessment process should be iterative.

¹ Communities & Local Government – National Planning Policy Framework (March 2012)

1.2.10. The Guidance suggests: *“Viability testing of Local Plans does not require a detailed viability appraisal of every site anticipated to come forward over the plan period. Because of the potentially widely different economic profiles of sites within a local area, this advice suggests a more proportionate and practical approach in which local authorities create and test a range of appropriate site typologies reflecting the mix of sites upon which the plan relies”*. Planning Practice Guidance (PPG)² reiterates and consolidates much of that contained within the Harman Report and the NPPF and has also been taken into account in providing this additional viability assessment.

1.2.11. Having regard to this guidance the council needs to ensure that the Local Plan, in delivering its overall policy requirements, can address the requirements of the NPPF. Overall, assessing viability requires judgements which are informed by relevant available facts, requiring a realistic understanding of the costs and the value of development in a local area and an understanding of the operation of the market.

1.4 Purpose of this Report

1.4.1 This study has been produced in the context of and with regard to the National Planning Policy Framework (NPPF), Planning Practice Guidance (PPG) and other Guidance³ applicable to studies of this nature.

1.4.2 In August 2013 the Government also began consultation on a Housing Standards Review to seek views on the rationalisation of the framework of building regulations and local housing standards. On 13 March 2014 the Government set out its response to the consultation with the decision to, as far as possible, consolidate technical standards into the Building Regulations. The Government intends to consolidate the standards into Regulations during this Parliament, with draft Regulations due to be published in the Summer of 2014 with supporting approved documents coming into force towards the end of 2014. As far as we are aware, draft technical standards were published for consultation in September 2014, due to end early in November 2014. At this stage, prior to any Guidance or statutory Regulation, we have applied the Council’ policies as set out in the North Hertfordshire Local Plan (2011-2031)

² DCLG – Planning Practice Guidance (<http://planningguidance.planningportal.gov.uk/blog/guidance/viability-guidance/viability-and-plan-making/>)

³ Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) – Financial Viability in Planning (GN 94/2012).

Emerging Preferred Options Draft and made recommendations on the viability of those throughout this report. It is possible that this may need to be reviewed later as more detail on housing standards is known.

- 1.4.3 The Government has also recently finished consulting on the potential to abolish any locally set affordable housing thresholds with a national minimum threshold of 10 units being put forward. As currently set out, the Council's affordable housing policies would be unaffected by any change.
- 1.4.4 In order to meet the requirements of the requirements of the NPPF, the Council appointed Dixon Searle Partnership (DSP) to provide the viability evidence to test the viability of the Local Plan including the level of affordable housing that can be viably sought across the District as well as other planning policies, obligations and standards that have a cost impact on development viability.
- 1.4.5 This study reviews the emerging Local Plan policy preferred options. It also considers the type of development likely to be relevant to the specific strategic site options. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the District; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside planning obligations including affordable housing). The aim is to provide the Council with a robust evidence base to support an appropriate level of affordable housing and recommendations on the viability of the Local Plan as a whole.
- 1.4.6 This does not require a detailed viability appraisal of every site anticipated to come forward over the plan period rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies which are likely to have a close bearing on development costs.
- 1.4.7 To this end, the study requires the policies and proposals in the draft Local Plan to be brought together to consider their cumulative impact on development viability. This means taking account of the draft Local Plan requirements such as design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.

- 1.4.8 One of the key areas will be the Council's approach to affordable housing (Policy HDS3). The current preferred option policy takes a sliding scale approach to affordable housing, aiming to achieve 35% affordable housing overall by requiring 30% affordable housing from sites of 10-14 units; 35% from sites of between 15 and 24 units and 40% on sites of 25 or more units.
- 1.4.9 This study applies sensitivity testing to policy costs including a range of affordable housing proportions to provide information to inform the Council's ongoing approach.
- 1.4.10 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.
- 1.4.11 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – GDV).
- 1.4.12 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are likely to be relevant to the development strategy and that are likely to come forward across the District.
- 1.4.13 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both the overall viability of the scheme types tested and the potentially viable level of affordable housing and other policies as it relates to development type and varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).
- 1.4.14 A key element of the viability overview process is the comparison of the RLVs generated by the development appraisals and the potential level of land value that

may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark.

1.4.15 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.

1.4.16 This report sets out our findings and recommendations and provides the Council with information and evidence to inform and support its ongoing work on and delivery of the Local Plan as a whole, building on the Local Plan Preferred Options draft document version and the evidence supporting that.

1.5 Notes and Limitations

1.5.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan viability, affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

1.5.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the appraisal result.

1.5.3 It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases. This report and the assumptions contained herein should not be used by applicants as a substitute for

site specific and locally sourced information / assumptions related to specific schemes.

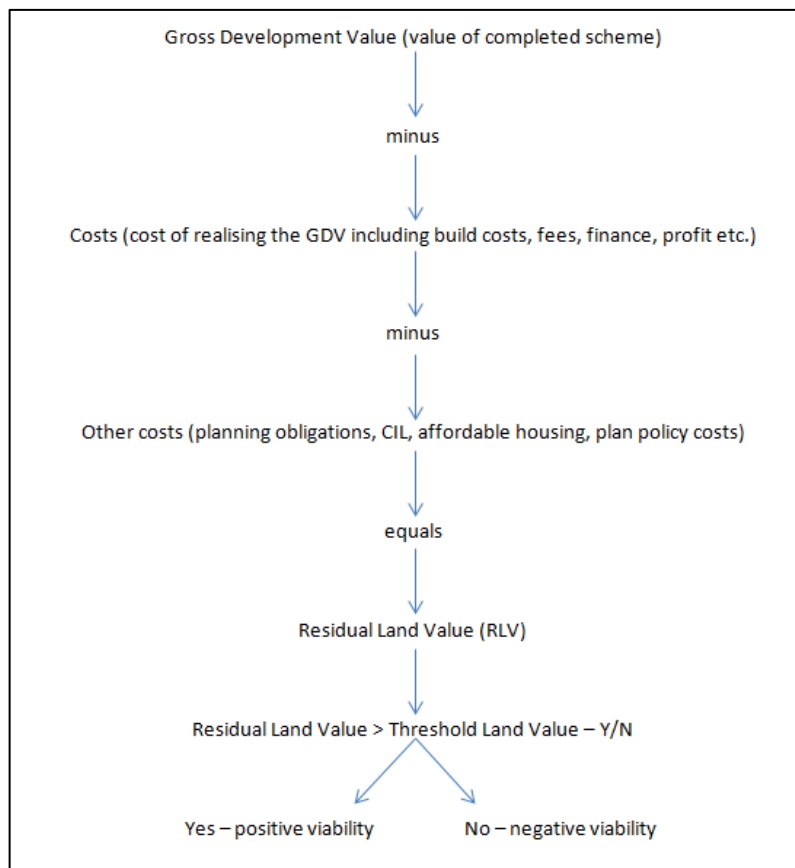
- 1.5.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's work on the Local Plan Emerging Preferred Options Draft.

2 Assessment Methodology

2.1 Residual valuation principles

- 2.1.1 There will be a number of policies coming through the emerging Local Plan that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on policies set out in the Local Plan Emerging Preferred Options Draft, in particular including affordable housing policies. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.
- 2.1.2 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, residential and non-residential / commercial.
- 2.1.3 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 2) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



- 2.1.4 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).
- 2.1.5 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.
- 2.1.6 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using

sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals locally and consequently there has been very little to use in terms of comparables. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a North Hertfordshire specific factor.

- 2.1.7 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through adding / increasing affordable housing, increasing costs (as with varying commercial development types) and increasing other planning obligations.
- 2.1.8 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local market through research on local values, costs and types of provision, etc. At key project stages we consulted with the Council’s officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a stakeholder questionnaire / pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions through which DSP sought to get feedback on study assumptions and to provide the opportunity for provision of information to inform the study. Appendix III provides more detail.

2.2 Site Development Scenarios

- 2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments. The scenarios were developed and discussed with the Council following a review of the information it provided. Information included saved policies and emerging Local Plan documents, Strategic Housing Land Availability Assessment (SHLAA), Strategic Housing Market Assessment (SHMA), Employment Land Review and numerous other documents that support and provide evidence for the emerging Local Plan. It was necessary to determine scenario types reasonably representative of

those likely to come forward across the District. In addition the scale of development coming forward across the District also needed to be considered.

2.2.2 The draft emerging Local Plan states that *'employment development should be located in combination with housing growth to promote sustainable patterns of development and access by non-car modes. As set out elsewhere in this local plan housing growth will be taking place within the four main settlements of the district namely Hitchin, Letchworth Garden City, Baldock and Royston as well as at additional strategic sites adjoining Stevenage and Luton'*.

2.2.3 Policy ETC7: Additional Retail Floorspace states:

'Within the allocated sites for mixed use development, we will seek to ensure that sufficient floorspace is allocated to meet the identified need for retail and town centre uses up to 2031. The main focus for new additional floorspace will be the four town centres, maintaining the district's current hierarchy and market share between centres. The identified additional need in gross floorspace is as follows:

<i>Comparison goods (e.g. clothes, shoes, furniture, carpets)</i>	<i>18,787m²</i>
<i>Convenience (e.g. food, drink, toiletries)</i>	<i>6,560m²</i>
<i>Other town centre uses</i>	<i>5,069m²</i>
<i>Total</i>	<i>30,416m²</i>

In new strategic developments we will work with neighbouring authorities to identify an appropriate amount additional retail floorspace to be included in these developments.

- *North of Stevenage*
- *West of Stevenage*
- *East of Luton*
- *North Baldock'*

2.2.4 Housing and Development Strategy Policy (HDS1) states:

'Over the period 2011-2031, sufficient land will be released for development to enable the delivery of at least 14,200 dwellings.

Of these, 12,100 dwellings are to meet North Hertfordshire's own objectively assessed need for development and are to be located on sites listed in Chapter 12.

The remaining 2,100 dwellings are to contribute to the unmet need for housing arising from Luton, to be located at Cockernhoe, as set out in Chapter 12.

In the event of an unmet need from Stevenage arising during the plan period land west of the A1(M) may be used for up to 3,100 dwellings in North Hertfordshire to meet Stevenage's unmet need.'

2.2.5 The supporting text to Settlement Hierarchy policy (HDS2) states that the Council 'wish to focus the majority of new development on the towns in order to make maximum use of existing facilities, social networks and infrastructure, and maximise opportunities to deliver new infrastructure. However, we also believe it is important to allow growth of the villages in order to allow those communities to continue to function'. The supporting text to the policy goes on to state:

'The towns (including urban extensions to existing towns) will be the focus for the majority of the growth in the district.

The Category A villages, defined as those with schools, will have development boundaries defined within which development will be allowed and sites allocated towards meeting the district's overall housing totals.

The Category B villages, based on those with a lower level of facilities such as village halls and public houses, will be allowed to accommodate infill development that does not expand the built core of the village into the surrounding countryside. This plan does not define the 'built core' of these villages. We believe it should be possible to assess on a case by case basis whether a site is in the built core. However, that may be something that affected communities may wish to explore through neighbourhood plans, or supplementary planning guidance could address if it proves necessary.

The Category C villages are those which give their names to a parish that does not contain any category A or B villages. As these villages have very low levels of facilities we only believe we should be supporting affordable housing to meet

proven needs from that parish, although some market housing to enable the necessary level of affordable housing may be acceptable in line with Policy HDS3'.

Residential Development Scenarios

2.2.6 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas including sustainable design and construction standards (see Figure 2 below; Appendix I provides more details):

Figure 2: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
5 Houses	5 x 3BH
9 Houses	4 x 3BH, 5 x 4BH
10 Houses	4 x 3BH, 6 x 4BH
15 Houses	6 x 2BH, 7 x 3BH, 2 x 4BH
15 Flats	5 x 1BF, 10 x 2BF
25 Mixed	5 x 1BF, 4 x 2BF, 4 x 2BH, 10 x 3BH, 2 x 4BH
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
50 Mixed	10 x 1BF, 7 x 2BF, 8 x 2BH, 20 x 3BH, 5 x 4BH
100 Mixed	20 x 1BF, 14 x 2BF, 16 x 2BH, 40 x 3BH, 10 x 4BH
1,000 Unit Strategic Sites Representative of Strategic Urban Extensions	100 x 1BF, 100 x 2BF, 200 x 2BH, 450 x 3BH, 150 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

2.2.7 The assumed dwelling mixes are based on the range of information reviewed, combined with a likely market led mix. They reflect a range of different types of development that could come forward across the District so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the District by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

2.2.8 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types.

- 2.2.9 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test a range of potential affordable housing policy thresholds. In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.
- 2.2.10 With regard to the strategic sites at this stage, it is not possible to undertake a very detailed review of the sites. Some of the sites form part of a larger overall allocation shared with neighbouring authorities. A broad assessment of the viability of those sites has therefore been carried out assuming a 1,000 units of development for each but with costs and values applied to each site location separately (leading to the appraisal results and summaries discussed in Chapter 3 and shown in Appendix IIa). Sensitivity analysis on the proportion of affordable housing potentially viable was also undertaken. For strategic scale sites much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. Unlike the smaller site appraisals, with the strategic sites the appraisals were run by fixing the land value input (land cost rather than residual land value as a result of the appraisal) and developer’s profit, the result being a surplus or deficit being produced. This deficit was then fed back into the appraisal to test the potential for the scheme to provide s106 infrastructure (calculated on a £ per plot basis) whilst also appropriately allowing for finance costs. The results then indicate the rate at which a scheme of this type in the various strategic locations across the District are able to generate a surplus towards s106 infrastructure.
- 2.2.11 It is likely that further detailed work will be required in order for the Council to develop a fuller understanding of the potential delivery scenarios of these sites over time, however further commentary is provided within Chapter 3, so far as possible at this stage given the results trends indicated by the largest current stage appraisals.
- 2.2.12 The dwelling sizes assumed for the purposes of this study are as follows (see figure 3 below):

Figure 3: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	150

2.2.13 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. These could also be influenced to some extent by the Governments Housing Standards Review. No single size or even range of assumed sizes will represent all dwelling types. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to price and assess schemes and it provides a more relevant context for considering the potential viability scope.

2.2.14 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

Commercial / Non-Residential Development Scenarios

2.2.15 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by the Council. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 5 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of different types of commercial development considered potentially relevant in the District.

2.2.16 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. The results - as at set out Appendix IIb explore the likelihood of sufficiently positive land values being created – to give an overview of the rate at which various development types produce value, necessarily based on current assumptions on costs and values (rental and yields). Figure 4 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 4: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m ²)	Site Coverage	Site Size (Ha)
Large Retail	Large Supermarket - out of town	4000	35%	1.14
Large Retail	Retail warehouse	1000	40%	0.25
Town Centre Retail	Comparison Shopping	3000	75%	0.40
Small Retail	Convenience Store - various locations	300	60%	0.05
Business - Offices - Town Centre	Office Building	1000	200%	0.05
Business - Offices - Out of town /Business Park	Office Building	3000	40%	0.75
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	250	40%	0.06
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	3000	40%	0.75
Hotel (budget)	Hotel - edge of town centre / edge of town	3000	50%	0.60
C2 - Residential Institution	Nursing Home	2100	60%	0.35
Institutional / Community / Health	Clinic or similar	500	40%	0.13

Note: 300 sq. m retail ('small retail') scenarios representative of smaller shop types also permitting Sunday Trading Act related trading hours (see also subsequent information in this report).

2.2.17 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the District. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based review. We also received some additional indications through our process of seeking local soundings. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of “sense check” to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

2.2.18 Clearly there is potentially a very wide range of such schemes that could be developed. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the emerging development plan overall.

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market movement over time). Given the values variations seen in different parts of the District through the initial research stages, the VLs covered typical residential market values over the range £2,500 to £4,250/m² (£232 to £395/ft²) at £250/m² (£23/ft²) intervals. These are set out within Appendix I – described as VLs 1 to 8.

2.3.2 We carried out our own research on residential values across the Council’s area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within the Council’s previous research documents and from sources such as the Land Registry, Valuation Office Agency

(VOA) and a range of property websites. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

- 2.3.3 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the settlement hierarchy provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the District. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.
- 2.3.4 Our desktop research considered the current marketing prices of properties across the District and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available. Together, this informed a District-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.
- 2.3.5 Overall the research indicated that although values vary as expected (a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc.), overall three of the four main towns showed little variation between them (Royston, Baldock and Letchworth); Hitchin was seen to exceed the average values shown in the other three main towns. Outside of the main settlements there was a very wide range of values across the District settlement by settlement. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future District development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to North Hertfordshire. Neither is the relatively small number of current new-build schemes from which to draw

information. However these factors do not affect the scope to get a clear overview of how values vary across the District. Figure 6 shows a high level view of the values pattern across the District:

Figure 5: Residential Values

Market Value (GDV)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8
Location (Range – Typical lowest to highest)	E of Luton N of Stevenage Great Ashby		Main towns - Baldock, Letchworth, Royston					
			N of Baldock N of Letchworth					
			Hitchin & rural areas (villages)					
1 Bed Flat	£112,500	£123,750	£135,000	£146,250	£157,500	£168,750	£180,000	£191,250
2 Bed Flat	£150,000	£165,000	£180,000	£195,000	£210,000	£225,000	£240,000	£255,000
2 Bed House	£187,500	£206,250	£225,000	£243,750	£262,500	£281,250	£300,000	£318,750
3 Bed House	£237,500	£261,250	£285,000	£308,750	£332,500	£356,250	£380,000	£403,750
4 Bed House	£312,500	£343,750	£375,000	£406,250	£437,500	£468,750	£500,000	£531,250
Indicative Value (£/sq. m)	£2,500	£2,750	£3,000	£3,250	£3,500	£3,750	£4,000	£4,250

2.3.6 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report.

2.3.7 The values that are assumed (as being available to support development) affect the consideration of viability of plan policies across the District. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the District - to inform the assumptions to be used to test the local approach in the emerging Local Plan.

2.3.8 In addition to the market housing, the development appraisals also assume a requirement for affordable housing. As discussed previously, North Hertfordshire District Council has set out an approach within the emerging preferred options draft Local Plan. This requires 305 affordable housing from 10-14 units; 35% on sites of 15-24 units and 40% on sites of 25 or more units. This has formed the base position for viability testing in this assessment. As this study seeks to test the viability of Local Plan policies holistically alongside other policies that may also have a potential impact on viability, we have also carried out sensitivity testing on a range of potential

affordable housing policies from 0% to 40% on a selection of sites. For the affordable housing, we have assumed that approximately 65% is affordable rented tenure and 35% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario). The starting point for this analysis is taken from the supporting text to the Council's draft emerging preferred options Local Plan Policy HDS3 – Affordable Housing which states that '*current normal approach is 65% rented tenures and 35% other tenures for affordable housing*'. It is acknowledged within the supporting text to that policy that this may change and in fact the policy states that the actual tenure (along with size and type of affordable housing) will be determined by the latest housing needs survey for an area, relevant local authority housing register or policies and objectives of the latest relevant housing strategies. Appendix I sets out the proportion, dwelling and tenure mix used in this study.

- 2.3.9 In practice many tenure mix variations could be possible; as well as many differing levels of rents derived from the affordable rents approach as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) element in that the setting the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.
- 2.3.10 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant.
- 2.3.11 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with

affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals. We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.

2.3.12 In broad terms, the transfer price assumed in this study varies between approximately 30% and 75% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rate for the Stevenage and North Herts BRMA for the varying unit types was used as our cap for the affordable rental level assumptions. This covers a majority of the North Hertfordshire District area.

2.3.13 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the RP's own development strategies and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

2.4 Gross Development Value – Commercial / Non-residential

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions needed to be made with regard to the rental values and yields that would drive the levels of the completed scheme values that would be compared with the various development costs to be applied within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the

residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

- 2.4.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.
- 2.4.3 Figure 6 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.
- 2.4.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the District. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a North Hertfordshire specific factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.
- 2.4.5 These varying rental levels were capitalised by applying yields of between 5% and 8% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined with 7% base yield (5 % - 6% for large retail formats and hotels) were

appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs.

- 2.4.6 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the viability of various forms of non-residential development across the District. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 6: Rental Value for Commercial Schemes

Development Type	Example Scheme Type(s) and potential occurrence	Value Level (Annual Rental Indication £/sq. m)		
		Low	Medium	High
Large Retail	Large Supermarket - out of town	£200	£230	£260
Large Retail	Retail warehouse	£130	£160	£190
Town Centre Retail	Comparison Shopping			
Small Retail	Convenience Store - various locations	£125	£150	£175
Business - Offices - Town Centre	Office Building	£120	£160	£200
Business - Offices - Out of town /Business Park	Office Building	£120	£160	£200
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£80	£90	£100
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£65	£75	£85
Hotel (budget)	Hotel - edge of town centre / edge of town	£4,000**	£5,000**	£6,000**
C2 - Residential Institution	Nursing Home	£160	£180	£200
Institutional / Community / Health	Clinic or similar	£120	£150	£180

* Convenience stores with sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.

**per room per annum

Economic and Market Conditions

- 2.4.7 We are making this viability assessment following what appears to be the end of a period of significant recession which has seen a major downturn in the fortunes of

the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we appear to have come through a period of relatively weak and uncertain economic conditions with the economy and property market in particular beginning to show signs of continued recovery. At the point of closing-off the study, it appears that the British economy is showing signs of significant recovery and growth with house price growth rising at a rapid pace (albeit with latest signals indicating a slowing in the growth), boosted by the Government’s Funding for Lending scheme and some forecasts indicating UK house price inflation of up to 31% by the end of 2018 for the East of England⁴.

- 2.4.8 The RICS Commercial Market Survey for Q3 of 2014 - stated that *‘The Q3 2014 RICS UK Commercial Property Market Survey results show the recovery, in both the occupier and investment sides, retains plenty of momentum. Furthermore, progress continues to be widespread across all sectors and throughout most parts of the country.*

In the occupier market, growth in tenant demand accelerated across the board, with the industrial sector again demonstrating the strongest results. In keeping with the trend reported over the past twelve months or so, this rise in demand was accompanied by a significant reduction in available space to let. What's more, the gap between fresh demand and supply has widened over the quarter, with the disparity most pronounced in the office and industrial sectors. Indeed, although leasable office space is falling right across the UK, it is becoming a particular issue in London.

Critically, around one in five London respondents noted that, since the introduction of Permitted Development Rights, over 10% of office space has been earmarked for residential conversion (whereas under one in ten reported this same rate of conversion at the national ex-London level). In addition, more than half of the London sample stated this conversion is taking place in secondary quality office stock, with 30% citing a tertiary focus.

Given tightening occupier market conditions across all sectors, rent expectations remain buoyant, albeit not quite as elevated in the retail segment. Significantly, office

⁴ Savills – Residential Property Focus Q3 2014

and industrial sector rents are expected to rise, over the next quarter, at the fastest pace on record (series started in 1998). In terms of the regional breakdown, the strongest rental gains are expected in London, while solid increases are also anticipated in the South and Midlands/Wales regional grouping. Meanwhile, rents are only projected to see marginal growth in the North, despite tenant demand continuing to rise at healthy rate.

Turning to the investment market, enquiries continue to increase at a significant pace, with the scale of the improvement broadly consistent across each area of the market. Interestingly, the largest rise in overseas enquiries was reported in the industrial segment, though both the office and retail sectors also recorded an uptick. All sectors experienced a reduction in the supply of property for sale, with the biggest contraction occurring in the industrial segment while retail units felt a more modest dip. Against this backdrop, capital values are expected to register strong growth in each sector over the coming quarter. Likewise, commercial property prices are anticipated to rise, to a greater or lesser extent, throughout all four broad regional aggregates.

Over the next twelve months, prime office sector rents and capital values are both projected (by contributors) to increase by around 5%, making it the leading market in this respect. At the other end of the scale, secondary retail is only expected to see marginal rental growth of 1% and capital value gains of around 2%. The remaining subcategories are all forecast to see rents and prices rise more than 3% over the year ahead'.

- 2.4.9 As can be seen, there is great variety in terms of values within each of the main settlement areas and across the full range of localities in the District. However, there were tones of values which informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context.

2.5 Development Costs – General

- 2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required and is appropriate.
- 2.5.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.
- 2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals.

2.6 Development Costs – Build Costs

- 2.6.1 The base build cost levels shown below are taken from the BCIS rebased to a North Hertfordshire location index. Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 8: Build Cost Data (BCIS – median), North Hertfordshire Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses – estate houses generally	£984
	Mixed development generally	£1,016
	Flats - generally	£1,164
	Flats - Sheltered housing	£1,200
Large Retail	Large Supermarket - out of town	£1,194
Large Retail	Retail warehouse	£688
Town Centre Retail	Comparison Shopping	
Small Retail	Convenience Store - various locations	£845
Business - Offices - Town Centre	Office Building	£1,535
Business - Offices - Out of town /Business Park	Office Building	£1,370
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£1,040
Business - Industrial /	Larger industrial / warehousing unit including	£1,040

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Warehousing	offices - industrial estate	
Hotel (budget)	Hotel - edge of town centre / edge of town	£1,600
C2 - Residential Institution	Nursing Home	£1,633
Institutional / Community / Health	Clinic or similar	£1,735

*excludes external works and contingencies (these are added to the above base build costs)

**all-in cost – range from budget to 4*+

2.6.2 Unless stated, the above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type (typically between 5% and 20% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.6.3 For this broad test of viability it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM) as relates to Policy D1 (Design) and NE7 (Delivering Sustainable Water Supply). In the residential scenarios, this was applied to all dwellings assuming that construction

standards met the energy requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4) – used as a proxy for future building regulations compliance. Sensitivity testing on further changes to Part L of the Building Regulations has also been undertaken assuming future compliance equivalent to meeting zero carbon requirements. We have utilised information within the DCLG Housing Standards Review Impact Assessment⁵ and Zero Carbon Hub respectively⁶. Costs associated with Policy NE7 in regard to sustainable water supply have also been included through the inclusion of costs associated with attaining CfSH L4 (again as a proxy for achieving water standards of 105 litres per person per day).

- 2.6.5 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our experience. We have seen variations, again, either side of this level in practice.
- 2.6.6 Survey and normal site costs have been allowed for on a notional basis (£4,500 per unit for smaller residential scenarios; variable within the larger residential and commercial scenarios).
- 2.6.7 The interaction of costs and values levels will need to be considered again at future reviews and it is acknowledged by the PPG that plan making should be a dynamic process. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we saw build costs fall, but moving ahead they are expected to rise again, if only over the longer term. Costs peaked at around Q4 2007 / Q1 2008 but fell significantly (by more than 10%) to a low at around Q1 2010 (similar index point to that seen at around Q1- Q2 2004 levels). The index shows that, after modest rises in the first half of 2010, building costs have been at relatively consistent (flat) levels. This trend is forecast to continue with steady tender price increases forecast through to early 2017 (rising from about a 2% per annum increase in 2014 to 3.9% at the beginning of 2018). Clearly only time will tell how things run-out in comparison with these forecasts.
- 2.6.8 The latest available BCIS briefing (12th August 2014) stated on build cost trends:

⁵ DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013)

⁶ Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)

'Tender prices rose by 1.7% in 1st quarter 2014 compared with the previous quarter, and by 3.4% compared with the same quarter in 2013.

The General Building Cost Index rose by 0.6% in 1st quarter 2014 compared with both the previous quarter and a year earlier.

Materials prices rose by 0.8% in the year to 1st quarter 2014 and nationally agreed wage rates rose by 1.4%. General inflation rose by 2.7% over this period.

On the back of an improving construction economy and the wider economy going forward, materials prices as a whole are expected to increase from 2.7% over the first year of the forecast to 4.1% over the final year. The global economy, and in particular the emerging economies, are not predicted to grow fast enough over the forecast period to put significant upward pressure on materials prices.

With construction demand increasing over the forecast period, the average of wage settlements is expected to rise at an increasing rate. It is anticipated that the average of wage awards will rise from 2.6% over the year to 2nd quarter 2015, to 3.9% per annum over the final two years of the forecast period.

New orders for construction work fell by 6% in 1st quarter 2014 compared with the previous quarter, but rose by 8% compared with a year earlier. It should be noted that ONS changed the methodology of data collection for construction orders in 2nd quarter 2013, without applying any conversion factor, which may continue to distort the yearly percentage changes through to 1st quarter 2014.

Building on the modest recovery in new work output in 2013, strong growth in new work output is expected during the forecast period, with the position of the economy as a whole improving. However, both at sector level and regionally, the recovery in the construction market is likely to be sporadic.

Short term capacity constraints may lead to higher annual tender price rises over the next few quarters, as contractors find it difficult to cope with the increase in workload. Tender prices are therefore expected to rise by an annual 5% to 8% over the next few quarters, with tender prices rising by 5.6% over the first year of the forecast. As contractors start to cope with the rising workload over the second year of the forecast, it is anticipated that tender price rises will slow to 4.6%. Driven by

increasing demand and pressure from rising input costs, tender prices are expected to rise between 5.0% and 5.5% over each of the final three years of the forecast period. The level of tender prices is predicted to return to the pre-recession peak in 2014, and tender prices are forecast to rise by around 30% over the forecast period⁷.

Annual % Change	2Q12	2Q13	2Q14	2Q15	2Q16	2Q17	2Q18
	to	to	to	to	to	to	to
	2Q13	2Q14	2Q15	2Q16	2Q17	2Q18	2Q19
Tender Prices	+2.6%	+5.1%	+5.6%	+4.6%	+5.5%	+5.2%	+5.3%
Building Costs	+1.3%	+0.6%	+2.8%	+2.8%	+3.3%	+3.8%	+3.9%
Nationally Agreed Wage Awards	+1.0%	+2.1%	+2.6%	+3.1%	+3.7%	+3.9%	+3.9%
Materials Prices	0	+0.4%	+2.7%	+3.0%	+2.9%	+3.5%	+4.1%
Retail Prices	+3.1%	+2.3%	+3.3%	+2.9%	+3.1%	+3.4%	+3.3%
Construction New Work output*	-11.3%	+1.3%	+6.8%	+5.9%	+5.6%	+5.7%	+5.6%
* Year on Year (e.g. 2Q12 to 2Q13 = 2011 to 2012)							

(Data Source: BCIS)

2.7 Development Costs – Fees, Finance & Profit (Residential)

2.7.1 The following costs have been assumed for the purposes of this study alongside those at section 2.6 above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

Professional fees: Total of 10% of build cost

Site Acquisition Fees: 1.5% agent's fees
0.75% legal fees
Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).

Finance: 6.5% p.a. interest rate (assumes scheme is debt funded)
Arrangement fee variable – basis 1-2% of loan

⁷ BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (August 2014)

Marketing costs: 3.0% sales fees
£750 per unit legal fees

Developer Profit: Open Market Housing – 20% of GDV
Affordable Housing – 6% of GDV (affordable housing revenue).

2.8 Development Costs – Fees, Finance & Profit (Commercial)

2.8.1 Other development cost allowances for the commercial development scenarios are as follows:

Professional and other fees: 10% of build cost

Site Acquisition Fees: 1.5% agent's fees
0.75% legal fees
Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)

Finance: 6.5% p.a. interest rate (assumes scheme is debt funded)
Arrangement fee variable – 1-2% loan cost

Marketing / other costs: (Cost allowances – scheme circumstances will vary)
1% promotion / other costs (% of annual income)
10% letting / management / other fees (% of assumed annual rental income)
5.75% purchasers costs – where applicable
5% build cost - BREEAM

Developer Profit: 20% of GDV

2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The following build periods have therefore been assumed.

Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied (see Figure 9 below):

Figure 9: Build Period

Development Use Type	Scheme Type	Build Period (months)
Residential (C3)	5 Houses	6
	9 Houses	9
	10 Houses	9
	15 Houses	12
	15 Flats	12
	25 Mixed	12
	30 Flats (Sheltered)	18
	50 Mixed	18
	100 Mixed	24
	1,000 Strategic Site Development	78*
Large Retail	Large Supermarket - out of town	9
Large Retail	Retail warehouse	7
Town Centre Retail	Comparison Shopping	12
Small Retail	Convenience Store - various locations	6
Business - Offices - Town Centre	Office Building	6
Business - Offices - Out of town /Business Park	Office Building	10
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	6.5
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	8
Hotel (budget)	Hotel - edge of town centre / edge of town	10
C2 - Residential Institution	Nursing Home	16
Institutional / Community / Health	Clinic or similar	7.5

*Larger scheme types – potential involvement by multiple house-builders

2.10 Planning obligations - Section 106 ('s.106') and Other Costs

2.10.1 Planning obligations have been included between approximately £70m² and £140/m² (market dwellings). This tests the parameters within which any future CIL scope could be based (taking into account previous work carried out by this consultancy on CIL viability on behalf of North Hertfordshire District Council and all of our recent experience on CIL viability). In practice the current level of planning obligations secured varies enormously site by site.

2.10.2 On larger, strategic scale development allowances would need to be made for increased levels of infrastructure (through s.106) assuming the requirement for potentially significant on-site provision in these cases. In this case, appraisals were run on the basis of scenario testing with a fixed land value input to allow a surplus to be generated after all other development costs had been accounted for (including sensitivity testing affordable housing). That sum could then be expressed as a sum per unit available for on-site s106 requirements.

2.10.3 In addition to the already included uplift to build costs for external works an additional £17,000 per unit was included for site opening-up costs in the case of these strategic site scenarios.

2.10.4 Other policies that potentially may have an impact on development viability have been reviewed and details are provided in Appendix I. In a majority of cases the costs form part of the normal development assumptions but where additional costs have been identified those have been added as per the emerging Local Plan or national policies (e.g. affordable housing, sustainable design, green space etc.).

2.11 Indicative land value comparisons and related discussion

2.11.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and planning obligations will also have a bearing on land value; as has been recognised by Planning Inspectors.

2.11.2 As discussed previously, in order to test the potential viability in relation to any development scheme relevant to the Local Plan and its policies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), affordable housing and other sensitivity tests.

2.11.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, land value circumstances and requirements will

in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as Government policy. The levels of land values selected for this comparison context are often known as ‘benchmark’ land values, ‘viability tests’ (as referred to in our results tables – Appendices IIa and IIb) or similar. They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience they serve well in terms of adding a layer of filtering to the results, to help enable the review of those; they help to highlight the tone of the RLV results and therefore the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change.

- 2.11.4 As suitable context for a high level review of this nature, DSP’s practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.
- 2.11.5 The local context features an expected ongoing important role for suitable large scale greenfield sites. In addition, it is likely that a range of typically smaller schemes will continue to come forward and support the overall supply picture from smaller greenfield sites, previously developed former commercial / employment land, as well as reuse and intensification of existing residential sites and garden areas.
- 2.11.6 A comparison between the RLV and benchmark land value level (i.e. after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential viability of affordable housing, planning obligations and other Local Plan policy related costs. It follows that, in the event of a negative outcome (deficit), we can see that, alongside the other costs assumed, the viability of those policy areas are reduced.
- 2.11.7 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will come forward at alternative figures – including in some cases beneath the levels assumed for this purpose.

- 2.11.8 Market conditions and whether a scheme is inherently viable or not (i.e. prior to planning obligations / affordable housing policy costs) tend to also play a key role in the viability of schemes and as such the potential viability of sites and policies forming the Local Plan may vary over time.
- 2.11.9 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. We reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the Council, seeking local soundings, EGi; and from a range of property and land marketing web-sites. Details of the research are provided in Appendix III.
- 2.11.10 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends.
- 2.11.11 As can be seen at Appendices IIa and IIb (residential and commercial scenarios results), we have made indicative comparisons at land value levels in a range between £370,000/ha and £2,000,000/ha so that we can see where our RLVs fall in relation to these levels and the overall range between them. These benchmarks are based on a review of available information from site specific reviews, local research and research carried out previously by both DSP and others in carrying out viability studies for North Hertfordshire.
- 2.11.12 Where greenfield or other lower value land were to be relevant then the results can be used in exactly the same way; to get a feel for how the RLVs (expressed in per ha terms) compare with a lower land value levels of say £370,000 - £500,000/ha. The minimum land values likely to incentivise release for development under any circumstances is probably around £370,000/ha in the North Hertfordshire context. Land values at those levels are likely to be relevant to development on greenfield land (or enhancement to amenity land value) and therefore relatively commonly occurring across the District. This range could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA to be valued at £15,000 - £20,000/ha in existing use, verified by our own research). The HCA issued a transparent assumptions document which

referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations would not go beyond these levels – they could well do in a range of circumstances.

- 2.11.13 The consideration of land value – whether in the RICS’ terms (see below) or more generally for this context, involves looking at any available examples (‘comparables’) to inform a view on market value and may well also involve considering land value relating to an existing or alternative use (‘EUV’ or ‘AUV’). Existing use value may also be referred to as ‘CUV’ (i.e. current use value). In addition, there may be an element of premium (an over-bid or incentive) over ‘EUV’ or similar required to enable the release of land for development.
- 2.11.14 The HCA’s draft document ‘Transparent Viability Assumptions’ that accompanies its Area Wide Viability Model suggests that *‘the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development’*. This benchmark is referred to as threshold land value in that example: *‘Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely’*. Further it goes on to say that *‘There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied’*.
- 2.11.15 RICS Guidance⁸ refers to site value in the following *‘Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations’*.

⁸ Financial Viability in planning – RICS Guidance note (August 2012)

2.11.16 In the Local Housing Delivery Group report⁹ chaired by Sir John Harman, it is noted that *‘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’.

2.11.17 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen.

2.11.18 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

2.11.19 Essentially this approach leads to the comparison of the RLV results in £s per hectare (£/ha), having taken into account all values and costs including varying levels of affordable housing, to a range of potential land values representing various greenfield, previously developed land (e.g. former commercial uses) or existing residential (residential intensification) benchmark land value figures. The range of land value comparisons is set out beneath the results tables (at Appendices IIa and IIb) and further information is set out within the wider research as included at Appendix III. The results trends associated with these are seen at Appendices IIa and IIb as explained in Chapter 3 below.

⁹ Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

3 Findings

3.1 Delivery experience in North Hertfordshire

- 3.1.1 Through our discussions with the Council and information review, we understand that the underlying strength of the local market has continued to support a level of development activity, which has seen a pick-up recently.
- 3.1.2 Schemes have come forward with regularity based on the Council's practical operation of a 40% affordable housing target headline with, from our information review, positive delivery achieved at or approaching the 40% level in a number of cases. Whilst negotiation and adjustment has also been necessary and appropriate on a number of schemes, that process has not been need universally. DSP has experience of site-specific development viability reviews in the District, carried out on a small number of schemes, although the information related to those cannot be included here owing to commercial confidentiality.
- 3.1.3 Our understanding of the general delivery picture is that the approach has operated reasonably successfully and proved positive for affordable housing and planning obligations delivery in the district on the whole. It follows that a lower affordable housing target than the 40% headline would clearly not have produced the number of outcomes at that level.
- 3.1.4 On this theme, a lower affordable housing target could not be guaranteed to be met fully on all or even a greater number of occasions.
- 3.1.5 There are also positive current indications in terms of the progression of proposals at east of Luton.
- 3.1.6 The information review forms a key part of the proportionate approach to 'using only appropriate available information' in carrying out a suitable viability assessment that helps to ensure the collective policy burdens do not place the implementation of that plan at serious risk (as per NPPF paragraph 174).

3.1.7 This forms a backdrop for the more technical part of the assessment as described in Chapter 2 and providing the residual valuation appraisal results that feed into our findings - as set out below.

3.2 Assessment findings - Introduction, values patterns and relationship with the development strategy associated with the emerging Local Plan (Preferred Options stage).

A guide to the results and appendices tables – Table contents and context for results review

3.2.1 Results summaries are included within the tables at the Appendices to the rear of this report, as follows:

- Appendix IIa (residential scenarios – tables 1a to 1n and example appraisal summaries that follow those tables);
- Appendix IIb (commercial / non-residential scenarios – tables 2a to 2g and relevant appraisal summaries again);

3.2.2 In each case these reflect the scenarios explained in Chapter 2 and summarised at Appendix I.

3.2.3 The Appendix I and IIa tables refer to the potential relevance / occurrence of the scenarios informed by and based on the emerging housing supply picture as indicated to date through our liaison with the Council – for example by host site type (greenfield/PDL), scale and density of development, etc. For the results review context, the overall supply, in summary, is likely to include a range of sources related to a focus for sustainable growth on the main towns (Hitchin, Letchworth Garden City, Baldock and Royston) including urban extensions to those; but also a strategy to allow the growth of villages as identified through the Settlement Hierarchy (particularly the ‘category A’ but also to a lesser extent the ‘category B’ villages). All in all this picture is likely to encompass a range of locations and site types (as per emerging policies HDS1 and HDS2):

- Large scale development – Strategic urban extensions that involve greenfield releases located north of Letchworth, north of Baldock, north / north east of Stevenage and east of Luton (near Cockernhoe);

- Potential smaller scale urban extensions to the existing towns;
- Continued use of previously developed and under-developed land within the towns and villages.

3.2.4 The Preferred Options stage work, wider supporting evidence / background papers and consultations will continue to inform NHDC's building approach towards its new Local Plan for the district.

3.2.5 The current stage high level scenarios for the commercial development use testing appraisals explore the likelihood of sufficiently positive land values being created - as set out Appendices I and IIb. Those assumptions and the judgements made from the results review enable an overview of the rate at which various development types produce value, necessarily based on current assumptions and values (rental and yields) variation sensitivity testing; all as noted in Chapter 2.

3.2.6 Aside from the general approach to protecting employment land in both towns and villages, the identification of land to facilitate new employment opportunities is an emerging plan theme. The proposals (at emerging policy ETC1) include the identification of additional land at Letchworth (former power station), east of Baldock and west of Royston. In addition, there is a possibility of employment land elements being included at the proposed strategic urban extension areas adjoining Luton and Stevenage.

3.2.7 The promotion, protection and enhancement of the retail and other services provision is also a plan theme (proposal ETC7) - within the 4 town centres and within the range of 'local centres' (including the village centres and the various neighbourhood centres at Hitchin, Letchworth and Great Ashby). Allied to this, and with a probable main focus on the town and local centres at Hitchin, Letchworth and Royston, emerging policy ETC7 seeks to accommodate additional retail space. The needs identified were oriented towards additional comparison shopping provision, but with a smaller element of convenience shopping and other town centre uses also playing a role in the enhancement of the centres. The 4 areas identified for strategic urban extension may also be locations for some elements of mixed use to serve and compliment the large scale residential proposals. Collectively, the Council is continuing to build and review a comprehensive evidence base for the new Local Plan. The emerging plan context was outlined at Chapters 1 and 2.

- 3.2.8 The Plan related viability assessment of potential affordable housing policy positions scope is based on the running of base appraisals using the preferred options proposals (HDS3) together with sensitivity tests. The test levels (AH %) are shown at the Appendix I overview and within the left-side grey shaded column in each of the Appendix IIa results summary tables.
- 3.2.9 Whilst in practice the Council may in some circumstances consider the use of financial contributions in-lieu of on-site affordable housing contributions on sites of 10-14 dwellings. The appraisal assumptions view, representing full proposed policy application, has been to include on-site affordable housing within all scenarios of 10 or more dwellings. This appears likely to be consistent with the Government's recent consultation proposals on a national minimum threshold or similar at 10 dwellings.
- 3.2.10 The way in which the affordable dwelling numbers within a scheme are calculated can have a significant effect on the detail of this when it comes to the delivery stage. As part of this, numbers rounding can make a significant difference. A conventional rounding approach (i.e. to the nearest whole number of AH units) has been used. As an example, 35% of 15 produces 5.25 units (say 5).
- 3.2.11 Given the range of outcomes and keeping a focus on the collective development costs, it was considered not necessary or locally relevant to undertake tests at higher proportions of affordable housing; the tests to 40% affordable housing provided sufficient context for review of the results across the range of circumstances relevant in North Hertfordshire.

3.3 Guide to the results tables and use of VLs – Appendix IIa (residential scenarios)

- 3.3.1 Each table within Appendix IIa shows the resulting RLVs (£ sums absolute – white, upper table sections) and RLVs/ha (£/ha – coloured, lower table sections) from each appraisal and at each value level (VL) across the range of scenario testing.
- 3.3.2 For Appendix IIa tables 1a to 1n the following provides a summary of the tables content and the local values context for the results review:
- i. Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and the assumed AH% in accordance with emerging preferred option stage policies.

- ii. Across the top grey row: other assumptions and results headings.
- iii. Within the main table section for each residential scenario type and AH position, the increasing market sales value level (VLs 1 to 8) used to test the sensitivity of the outcomes to varying values. Overall, this covers values from £2,500 to £4,250/sq. m (approximately £233 to £395/sq. ft.). This range enables us to consider viability as influenced by location and by the market. The review approach provides full context for considering the potential for the varying value levels to support viable developments with reference to the collective policy influences and direct development costs associated with the delivery of the emerging plan proposals. For the 30 unit flatted scenario included, envisaging retirement (sheltered housing) apartments, we looked at VLs 6 to 8, reflecting the premium value levels considered appropriate and relevant for this type of housing in the local market (table 1h within Appendix IIa refers).

3.3.3 Whilst overall a wide span of values is seen across the district, the area of the values range that is relevant to the 4 main towns is relatively limited. In terms of values patterns related to our understanding of the settlements and locations most relevant to the overall delivery associated with the emerging plan, we note:

- Relatively consistent values across the 4 main towns – an overlapping values range within which values at VL3 to 5 are most typical and relevant;
- Looking more closely at that main towns picture, within that bracket Royston values were indicated to be slightly lower than the others, and Hitchin values are typically the highest of the urban area values within the district (equivalent to or overlapping with typical village / rural area values);
- The villages are the highest value locations in general, but look set to be of significantly less relevance to the overall emerging plan delivery picture when viewed as a whole;
- Looking at the potential options / areas for strategic growth locations, these are currently difficult to assess. They will set their own sense of place and mini market circumstances at least to some extent. However, at this stage it appears appropriate to assume that given the large scale of development and

housing supply that will be produced, that values will be beneath those for the adjoining rural areas / nearby villages and more akin to larger scale development / mass market type housing values for the towns that they are associated with. This has resulted in assumptions as follows, and sensitivity testing around these for the strategic scale development representative appraisals to date (probable lowest to highest):

- East of Luton. At this stage we have estimated this at VL1 / VL1- VL2;
- North/north east of Stevenage. Assumed at VL 1 - 2; VL 1 to a mid-point may be most realistic, with VL2 a slightly more optimistic view looking at it now;
- North of Letchworth and north of Baldock. We consider that looking at these now, VL3 is probably most representative – i.e. values towards the lower end of the new-builds range for these towns (on the basis that we expect smaller, more individual developments in more established areas would probably command higher prices).

3.3.4 New-build schemes tend to set their own values which do not necessarily fit the prevailing levels in an area. Larger scale sites could also well set their own value levels, depending on location, the rate of delivery / market and proximity of facilities, etc. – as above.

3.3.5 So VL1 represents the lowest market values sensitivity test, through a scale including the highest market values sensitivity test at VL8. VL1, however, is largely to be regarded as lower-end sensitivity test for residential in this district, in the main outside the range of typical values considered relevant to delivery moving forward, and therefore represents the effect of a falling market from the current lower-end of the more typical values - at VL2 - 3. The VL1 tests also serve the purpose of representing a current stage view of the lowest values, by location, that are likely to be relevant to the overall plan delivery – i.e. in respect of the east of Luton and also the north of Stevenage strategic development areas (urban extensions).

3.3.6 We consider that the range of values currently most relevant to the emerging plan, is represented by VLs 3 to 5 with VL4 being the most representative of the overall emerging plan supply mix of development on smaller sites and VL3 the equivalent typical level considered appropriate now for the north of Baldock and north of

Letchworth proposed strategic urban extension locations. Introductory context on the local values was included in Chapter 2 and the detailed research is set out at Appendix III.

3.3.7 Although in practice values patterns will not usually respect boundaries as such (values tend to vary very locally, influenced by surroundings, schools, views, proximity to local amenities and facilities etc.), we can indicate the relevance of the Values levels (VLs) to the current market levels for new builds (as far as seen at the time of research) and the district's main settlements, as follows.

3.3.8 An overview of the value levels (VLs) used is provided by the following table – Figure 9.

Figure 9: Residential Value Levels range - overview

Market Value - Value Level (VL i.e. GDV)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8
Location (Range – Typical lowest to highest)	E of Luton N of Stevenage Great Ashby		Main towns - Baldock, Letchworth, Royston			Main town of Hitchin & rural areas (villages)		
			N of Baldock					
			N of Letchworth					
1 Bed Flat*	£112,500	£123,750	£135,000	£146,250	£157,500	£168,750	£180,000	£191,250
2 Bed Flat*	£150,000	£165,000	£180,000	£195,000	£210,000	£225,000	£240,000	£255,000
2 Bed House*	£187,500	£206,250	£225,000	£243,750	£262,500	£281,250	£300,000	£318,750
3 Bed House*	£237,500	£261,250	£285,000	£308,750	£332,500	£356,250	£380,000	£403,750
4 Bed House*	£312,500	£343,750	£375,000	£406,250	£437,500	£468,750	£500,000	£531,250
Indicative Value (£/sq. m)	£2,500	£2,750	£3,000	£3,250	£3,500	£3,750	£4,000	£4,250
(£/sq. ft.)	£233	£255	£279	£302	£325	£348	£372	£395

(*Indicative property prices based on VL as applied to assumed market dwelling sizes)

3.3.9 Tables 1m and 1n within Appendix IIa show the results for a further range of sensitivity tests carried out beyond those associated with the base assumptions on development costs and the values variations. These show for the selected sample scenario (100 units mixed housing development) the impact of a current stage zero carbon construction costs assumption as compared with equivalent results tables 1k and 1l.

- 3.3.10 Much the same as with the wider results, these may be used by the Council to consider the relative impact of various requirements and combinations and the potential ‘trade-offs’ between different requirements. These further tests are based on current stage assumptions. On reviewing this area of the results, the Government’s likely standardisation of requirements under the building regulations, or similar, through the current Housing Standards Review process should also be kept in mind. Any need or justification for specific, detailed local policy on such matters may be overtaken by the national level review.
- 3.3.11 Following the main results tables within Appendix IIa, appraisal summaries and Argus Developer software summary reports are included for sample relevant scenarios – schemes of up to 100 dwellings representative of development within or small extensions to the towns and villages; followed by those of 1,000 dwellings representative of, or a portion of, the greenfield strategic urban extension scenarios.
- 3.3.12 The current stage larger / strategic site results and the findings from those are discussed below separately, given the different nature of considerations involved with them. Although it applies the same core principles as discussed through Chapter 2 in respect of the smaller sites scenarios, the appraisals process, assumptions and results format in respect of the strategic site reviewing is different. Therefore, those results are incorporated within the text later in this Chapter rather than at Appendix IIa.

3.4 Guide to the results tables – Appendix IIb (commercial / non-residential scenarios)

- 3.4.1 The same principles apply in respect of the current stage commercial / non-residential development use types review process.
- 3.4.2 Tables 2a to 2g at Appendix IIb include the equivalent information for the commercial / non-residential scenarios testing undertaken, limited to the scenarios where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel and residential institution (nursing / care home type)). These tables show in their heading the rental yield % assumed for each set – range 5% to 8% at 0.5% steps. In the main, the lower commercial development yield tests (over the range 5-6%) are considered relevant only to any future retail development in terms of those types that showed positive viability with current stage assumptions.

- 3.4.3 Overall, the range of yields used assumes high quality, well-located new-build development as relevant to the emerging Plan objectives. It should be noted that in respect of some development uses in the local context (particularly offices and industrial within 'B' (business) Class uses) the yield tests shown are at the positive end of the potential range and are used so that we can see to what extent realistic assumptions support positive scheme viability. For the development use types considered, where poor or marginal outcomes are shown generally (B, C1, C2 and D1 Uses (business, hotels, care / nursing homes, community / health)) we can see that results would deteriorate further with increased yield % trials.
- 3.4.4 Equivalent to the Appendix IIa content, sample commercial appraisal summaries are included to the rear of Appendix IIb.
- 3.4.5 The following guides the use of the Appendix IIb results summaries tables for each commercial / non-residential scheme type:
- i. Relevant yield % test per results set – shown within each table title. For the widest review context, all yield %s have been tested across all scenario types at this stage.
 - ii. The increasing value assumption is shown (this time meaning the rental value that underpins the completed scheme (sale) value – i.e. GDV – L (low); M (medium); H (high) rental assumptions. The medium value levels were considered to be the key area regarding current balanced interpretation of results. 'L' and 'H' allow us to consider the sensitivity of outcomes flowing from lower or higher rental values assumptions, related to varying scheme type / location; and / or market movements. As with the yield trials, in the case of poor current viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results based on the assumptions necessary for use within this type of strategic viability study. Similarly, and while the commercial property market is picking-up, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through any weakening of current stage assumptions.
- 3.4.6 Aside from considering the optimal available land locations in the district, the timing and facilitating of development through working with the market and ensuring that

no overly onerous policies further restrict any market activity that there may be, there is little that a local authority can do directly to influence or improve development viability in this regard. For context here, in our wider work we are seeing that for prime sectors and locations the commercial market is beginning to show significant signs of picking-up from the recessionary period. To date, however, the signs are that the market pick-up is not widespread by either location or development type. With this in mind we note the Council's positive emerging plan proposals references to its intended promotion of the local knowledge based economy ('knowledge-intensive employment'). Identifying and optimising the scope for local specialisms is likely to be beneficial.

3.4.7 As with the residential results at Appendix IIa, the coloured table sections act as a guide to the trends seen across the range of RLV results.

3.5 Appendices IIa and IIb results tables and review – general notes and principles

3.5.1 It is important to note that the colour-coding shown on the Appendix IIa and IIb tables provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability.

3.5.2 In practice, switch-points between viability and non-viability will be variable. This process explores the likelihood of various realistically assumed values and costs proving to be workable in combination, and therefore the prospects for the relevant range of development types underpinning a deliverable set proposals for housing and other growth across the plan. This is all in the context of the current emerging plan development point, so far as it was possible to make financial assumptions at this Preferred Options review stage; i.e. in advance of but, appropriately, to inform the further development and settling of the detailed policy content following the forthcoming consultations.

3.5.3 The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from red (representing poor outcomes – negative RLVs – i.e. currently indicating clear non-viability) to the boldest green-coloured results (indicating the greatest level of confidence in viability across a wider range of land value

comparisons representing different host site types and landowners' circumstances). There are no precise cut-offs or steps in terms of the results interpretation. In practice a range of outcomes within the non-red table areas could prove viable depending on particular scheme and site circumstances. The footnotes to the Appendix IIa and IIb tables describe these as a series of 'viability tests', referring to the various land value comparison levels considered:

- Boldest green cells - considered to provide very good viability prospects; the best results from the range produced; likely to be workable across the full range of site types.
- Mid-green cells - considered to provide good viability prospects in a range of circumstances meeting a wide range of likely former commercial use and lower residential values expectations / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels for a limited range of high-value commercial / non-residential developments (e.g. potentially large format retail / similar scenarios). Therefore whilst these results indicate workable schemes on a range of previously developed land (PDL) site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above) that are considered capable of working even on the highest value PDL scenarios in the North Hertfordshire context.
- Paler green cells – Positive RLVs, but which are under our higher land value comparisons and therefore indicating reduced confidence in results, particularly in respect of most PDL scenarios. Potentially representative of scenarios that may be workable on some lower value PDL (former commercial) or (with greater confidence in some cases) on greenfield sites; our key benchmark for greenfield development is £500,000/ha.
- Non-coloured (white) table cells areas of results – RLVs that are beneath the lowest of the viability tests (land value benchmarks) which in this case means values beneath the minimum level of approximately £370,000/ha considered applicable in larger scale greenfield scenarios. These include a range of negative RLVs, where the outcomes mean schemes in financial deficit or in any event representative of clearly poor viability outcomes – no real prospect of viability based on the collective assumptions used in each case.

- The colour scale linked to the selected land value comparison (benchmark) levels, indicating the results trends within Appendices IIa and IIb (as per the table footnotes there) is as follows (see Figure 10 below):

Figure 10: Land value comparisons (benchmarks) range – Footnote key to Appendices IIa and IIb colour shading - results trends guide:

Key:		RLV beneath Viability Test 1 (RLV <£370,000/ha)
		RLV exceeding Viability Test 1 (RLV £370,000 - £500,000/ha)
		RLV exceeding Viability Test 2 (RLV £500,000 - £750,000/ha)
		RLV exceeding Viability Test 3 (RLV >£750,000/ha - £1,500,000/ha)
		RLV exceeding Viability Test 4 (RLV >£1,500,000/ha - £2,000,000/ha)
		RLV exceeding Viability Test 5 (RLV >£2,000,000/ha)

Source: Dixon Searle LLP (2014)

- 3.5.4 Individual results are seen to increase through assumptions on higher sales values (increasing VL), reducing affordable housing (where tested) or other downward policy / cost adjustments. Conversely the results show decreasing viability (decreasing ability to meet or beat the viability tests (benchmarks)) as the VL reduces, AH increases and / or other costs increase. (e.g. planning obligations 1 test, relative to planning obligations 2 test).
- 3.5.5 Again, this is not about firm cut-offs or steps, but judgements made with the benefit of this method of viewing and filtering the results.
- 3.5.6 The land value comparison levels (benchmarks) do not set a limit. It can be seen that some development scenarios will readily exceed even the higher viability tests – mid to higher value residential scenarios and larger format retail scenarios. This also needs to be kept in mind as part of the balanced approach to reviewing the assessment outcomes. More valuable developments usually drive and justify higher land prices in the market, as our results show.
- 3.5.7 To the rear of Appendices IIa and IIb are relevant sample appraisal summaries for the residential and commercial scenarios respectively. Bearing in mind the assessment purpose and nature, these are not the full appraisals or sets of those, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used.

3.5.8 The discussion that follows within this section is supported by our findings and experience based on the review of the results and in particular:

- i. Site supply context – types and proposed locations for development. See for example the summary of provisional site allocations information to the rear of Appendix I – including high level analysis of the proportion of the anticipated housing supplying from greenfield land compared with PDL. A vast majority of the overall supply (in excess of 90%) looks set to be accommodated on greenfield land;
- ii. Collective impact on viability of current stage assumptions representing the emerging Plan policy direction – with affordable housing the largest single influence (impact) on viability other than the market cycle.
- iii. Variation in values seen across the District, although compared with many areas that we have been involved with these are relatively consistent between the 4 main towns and the most significant variations from typical values levels are considered to be in respect of the potential strategic urban extensions east of Luton and north of Stevenage.
- iv. Level of planning obligations for matters beyond the affordable housing % and open space area proposed policy impacts that have been directly factored-in as appropriately representing emerging (Preferred Options) policy.

3.5.9 Costs will vary from these assumed levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some additional viability scope may be needed where costs are higher than assumed through such factors as site-specific abnormals and / or increasing national level carbon reduction agenda requirements longer term, scheme-specific design / materials, etc. It is usual not to take account of unknown site-specific level abnormal costs within this assessment type; those will need to be dealt with in settling final affordable housing and other obligations packages at the planning application stage.

- 3.5.10 When viewed overall, the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to the North Hertfordshire characteristics where more specific / local information available through our officer contact, local soundings and research pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the new Local Plan and to informing the ongoing consideration of achievable planning obligations levels.
- 3.5.11 Land owners' situations and requirements will vary. Expectations will need to be realistic and take account of policy and planning obligation requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the continued market conditions for some types of commercial property; existing and alternative use value assessments as part of land negotiations and planning stage viability assessments will need to be realistic. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels.
- 3.5.12 We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that trend; the use of the residential values levels (VLs) range in that way purely provides indications on a sensitivity basis so that to inform the viability scope put to the Council we are looking at the range of values expected, from the information currently available. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.
- 3.5.13 HCA funding for affordable housing appears to be uncertain at best, and likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher site costs, significant development abnormalities or other requirements).

- 3.5.14 In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council’s proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.
- 3.5.15 The modelling does not need to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected North Hertfordshire area wide delivery.
- 3.5.16 Some individual schemes (residential and commercial) may not be able to support the collective requirements; they may not be viable either prior to or following the imposition of full affordable housing and other planning obligations. Such viability outcomes are unlikely to be solely due to the planning obligations sought, however. They are more likely to be associated with market conditions (arguably the biggest single factor), site characteristics and selection, high existing use values, abnormal development costs or a combination of such factors. The collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that unless or until a CIL is implemented in the district the planning obligations will be negotiable.
- 3.5.17 Under strategic level viability principles variable viability is accepted, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery as a whole. This also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured, including to the extent that the approach to planning obligations affecting such sites must not have too significant an impact on their viability so as to place their delivery at risk.
- 3.5.18 Conversely, given the local very significant role of greenfield development of various scales it is also the case that some schemes / scheme types may be able to fund a greater level of planning obligations than the currently assumed levels. This is again in the context of not adding undue risk to delivery and therefore moving forward with the local economy and development to support that, whilst collecting

contributions towards meeting the infrastructure needs associated with the required new development.

3.5.19 The Council needs to strike the right balance with its approach to policy requirements in order to reach the most appropriate mix of ingredients to allow and promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided.

3.5.20 It is important to note, when we refer to varied outcomes and some poor or marginal results, that:

- These are not factors that only affect Local Plan considerations in North Herts. They have to be recognised in any similar study and applied through practical local application of the Government's approach – through the NPPF, NPPG and (where applicable to a Council's approach) the CIL regime – regardless of location;
- Any viability difficulties would apply to some extent regardless of the approach to planning obligations. Given that particular difficulties with some schemes are inevitable, setting a significantly lower affordable housing target and / or wider planning obligations approach would not necessarily resolve or fully resolve any viability issues. We could still see a range of unviable or marginally viable schemes with even a zero planning obligations level and / or a nil CIL charging rate. The results show this for some key non-residential scheme types (Appendix IIb) and for the limited extent of lowest value residential scenarios with the full AH%. Lower to mid value flatted development indications and lower value strategic development are examples of these more challenging looking scenarios when viewed with the assumed obligations level (see Appendix IIa and range of strategic scenarios results below).
- In the case of all scenarios, the non-viable and marginal viable indications that result from the assessment basis and assumptions (in accordance with the relevant guidance and regulations to ensure that policy positions and planning obligations levels are not set at unrealistic levels) do not necessarily mean that schemes will not come forward. There may well be some examples brought forward in practice that appear to be contrary to the findings. However for a study of this nature the developer's and landowner's potential flexibility where available

on financial criteria, and that may be achieved through bargaining power, negotiations, value engineering and the like cannot be relied upon; high-level market norm inputs and a buffered rather than any potentially honed-down approach to assumptions and results interpretation must be used here. Schemes that come forward in a way that appears contrary to the assessment indications are of course a positive for the economic growth of the area, and do not necessarily mean that policy positions or obligations levels could have been made more demanding. Future monitoring of delivery should inform review over time.

- The main provisos for the Council to consider in this context are taking care not to set the overall burden of planning and infrastructure obligations (including any CIL) at an unrealistic level; and that in any event it will always be necessary to operate planning obligations policies (including on affordable housing) to some extent in a responsive and flexible way - according to the market and site-specific circumstances.
- In our experience of the policy development, examination and operation processes, affordable housing %s should be expressed as target requirements, with the role of particular development circumstances including viability acknowledged. An over-prescriptive approach or fixed expectation that a certain AH% should be delivered as a minimum, for example, is unlikely to be workable. These are usual caveats.

3.6 Findings overview – residential

General

- 3.6.1 Given the combination of the typical value levels in the district and the likely role for greenfield development in particular, the Council's Preferred Options proposals identify development which overall should have the potential to be viable and support the policy proposals that we have reviewed.
- 3.6.2 The upper land value comparisons (benchmarks beyond £750,000/ha) are considered to have limited relevance in the overall Preferred Options plan stage context. The results as measured against the higher benchmarks will however be important to consider in respect of the 500 or so dwellings to come from allocation proposal PDL sites in the towns and villages, including the extent to which those coincide with the

affordable housing policy and lower-end values. The same applies in respect of ongoing progression of windfall type development opportunities typically in smaller PDL circumstances.

Affordable Housing

- 3.6.3 This has been identified as the main policy related viability impact; not unusually.
- 3.6.4 Based on our understanding of a very dominant role of greenfield sites to support the housing growth in the district, however, in the overall plan delivery context there are few scenarios in our view where a 40% headline affordable housing target will not perform appropriately.
- 3.6.5 This is subject to the provisos noted above around the phrasing of the policy as a target and its practical operation where needed in response to site-specific matters including viability. This also reflects the affordable housing target / guideline tenure mix of a 65:35 ratio in favour of affordable rent over low cost home ownership (e.g. shared ownership).
- 3.6.6 Adjustments will be necessary in particular cases, and potentially frequently, but there is nothing unusual in this. The target should be reasonably demanding when the opposing tension of high affordable housing needs is taken into account in reaching a balance.
- 3.6.7 The scenarios where associated findings and advice may be relevant for the Council's consideration are:
- i. The schemes of fewer than 10 dwellings are seen, relative to the larger ones, to receive a viability boost as a result of falling beneath the affordable housing threshold. This might be considered in future if for example a CIL is pursued – linked to the scope introduced earlier in 2014 to introduce CIL rates variation for scale of development where viability outcomes show that to be appropriate.
 - ii. Associated with this, at 10 dwellings the introduction of the 30% affordable housing target produces quite a marked dip in the RLVs, as would be expected. Many smaller schemes such as these would be on higher value

previously developed land (PDL). Whilst, so far as we can see, the role of PDL in the overall plan delivery context is small, as an alternative to the 30% the Council could consider a 20% target at this level if it is felt that the viability of such schemes should be further supported. However, expressed and managed appropriately as above, the Council may consider that the higher target is not detrimental in any significant way.

- iii. Following the point at ii. Above, similarly the step to 35% AH at 15+ dwellings might be considered further. This would be particularly appropriate, with a reduction to say 30% potentially appropriate as an adjustment of the sliding scale type approach if the position at 10 dwellings, the first point of AH policy impact, were considered as above.
- iv. The VL1 results would be those giving the firmest indicators of potential cause for concern on viability, particularly allied with 40% AH applied strictly. Outcomes will of course be highly site-specific and this does not appear generally relevant as a scenario apart from potentially at the east of Luton strategic growth location, and less so for north of Stevenage, where we suggest that further review work may be needed with the benefit of more detailed information as proposals are worked-up. In order to strike optimal balances between affordable housing and other infrastructure, some level of further review and compromise may be necessary.
- v. Overall, however, the key point here is about appropriate policy wording and operation in use, and not just the stated AH%s – so that the affordable housing policy is appropriately challenging but responds as necessary to circumstances that are key to the plan delivery as a whole.

Wider planning obligations – s.106 / CIL (residential)

- 3.6.8 Supported by this greenfield based land supply, similarly the results show that there are good prospects for securing planning obligations within the parameters appraised - £70 – 140/sq. m on a CIL-equivalent basis and dependent on particular circumstances. These findings are broadly consistent with previous, provisional work carried out by DSP for the Council on CIL in 2012.

3.6.9 The indications are that if pursuing CIL there could be differential rates considerations involving:

- Scale / type of development (both in respect of strategic scale development and possibly the smallest sub-AH threshold sites);
- Locations / zones (review of any differential(s) needed in respect of the influence of PDL sites viability and values variation.

3.6.10 In respect of the bulk of proposed development, on greenfield sites, the results indicate that through s.106 or CIL (or a combination of the two) there should be scope to support contributions at or towards the upper levels trialled in this assessment. On the CIL route, consideration would need to be given to any residual s.106 contributions that may need to be allowed-for alongside the fixed cost CIL charging rate(s). We do not go into detail on CIL here, but the wide range of CIL rates setting factors would need to be reviewed and considered alongside the confirmed plan proposals for development. The nature of the CIL rate(s) setting process and necessary headroom for reliable charging scope is such that the Council may wish to give consideration to this in finalising its approach to requirements, including affordable housing, affecting PDL scenarios.

3.6.11 The scope identified and recommendations made here may in general need review in the event of the site supply picture changing from the understanding gained from our information review (greenfield role).

Sensitivities – added costs – e.g. sustainability measures; and other related points

3.6.12 This theme of prudent policy placing extends to the potential further consideration of other Local Plan policy areas, such as on housing standards / sustainability and on centralised energy networks.

3.6.13 Given the likely further standardisation of requirements and the continuing development of the building regulations, if relevant our recommendation is for the Council to develop policy detail that encourages - rather than requires - the inclusion of measures going beyond the developing national policy backdrop.

3.6.14 The results at Appendix IIa tables 1m and 1n indicate the added viability pressure from the collective costs of the zero carbon assumption and affordable housing (particularly at 40% combined with lower-end values and or planning obligations at the higher test level here). Depending on how the costs of this develop in the coming period, this is really in the main a further indication of the potential need to review further in due course the situations where these factors combine. This is consistent with the points noted at 3.6.7 iv above, for example.

3.7 Larger scale residential-led development (strategic urban extension type)

3.7.1 Summaries of the appraisals, prepared using Argus Developer software, accompany this report – found at the end of Appendix IIa after the smaller sites appraisals summaries. These are associated with development of this nature at the large scale development locations that they represent, as identified to date by the Council through the Local Plan Preferred Options development.

3.7.2 As with all appraisals and the nature of this assessment, in practice the actual outcomes will only be determined at a later stage once the delivery details are worked-up. At this level of appraisal, given the early stages information on site / infrastructure requirements in most cases, they are mainly representative of assumed development in these locations; of a relevant overall (strategic) scale as envisaged through the Preferred Options and with a broad view of general development costs that are likely to be applicable.

3.7.3 At this stage the settled and estimated / costed information available on the potential infrastructure requirements for each of the strategic scale sites / areas tested is in the development stage (and is a picture that will build further over time in the usual way). DSP therefore used an approach to consider the potential surplus available from the gross development value (GDV) to support infrastructure and planning obligations. This was undertaken on the basis of a fully applied 40% AH policy, but further tested (to a trial 20% to provide wider context for review) where the 40% results indicated a potential need for consideration of priorities moving forward – again, as noted above.

3.7.4 Overall this is considered to be the most informative approach based on the available information at the current time. The scale of estimated financial surplus arising from the various scenarios tested, based on the assumptions applied, is viewed per

dwelling. This is calculated after allowing for fixed land costs, developer's profit, affordable housing and site works costs along with all regular development costs – all as set out in Chapter 2 and at Appendix I.

3.7.5 The outcomes are as follows (see Figure 11 below) and are expressed in terms of sums indicated to be available after all other development and policy costs assumptions made to date for all dwellings.

Figure 11: Strategic site appraisals – results overview

Potential s106 / planning obligations surplus - £/dwelling				
Location & approximate sales values (VL / £/sq. m)	Affordable housing proportion (Base build costs)		Affordable housing proportion (Zero carbon equivalent)	
	20%	40%	20%	40%
East of Luton / North of Stevenage (Lower – VL 1 - £2,500/sq. m)	£10,000	£3,000	£3,000	£nil (negative)
East of Luton / North of Stevenage (Upper – VL2 - £2,750/sq. m)	Not tested currently	£13,000	Not tested currently	£6,000
North of Letchworth / North of Baldock (VL3 - £3,000/sq. m)	Not tested currently	£23,000	Not tested currently	£16,000

3.7.6 As can be seen here, these findings expand on and reinforce the points made above. Further review would inform this once more is known.

3.7.7 Additional funding / investment potential, if any, e.g. via the HCA (Homes and Communities Agency) or others, may be another angle for consideration.

3.7.8 Whilst it is currently difficult to fully assess the site-specific costs associated with the preferred option strategic urban extension locations (and in our experience there is nothing unusual in this), from these outcomes and the emerging view on site-specific requirements / costs, the most likely workable p[planning obligations scenario appears to be delivery flexibility achieved through continued use of s.106. Fixing CIL in respect of strategic scale development could significantly restrict the delivery flexibility scope given that there are likely to be significant site-specific mitigation measures whether or not a CIL charge affects these developments. The view taken by

the Council will be subject to the actual nature of delivery though, and again at this stage this points to ongoing review more than a particular outcome at this stage.

3.7.9 Potentially of great importance to the larger sites / strategic locations delivery over time, the timing and phasing of infrastructure works and planning obligations in general will need balancing with funding availability and viability positions as updated through on-going review. In terms of project cashflows and the impact of the timing of major expenditure in advance of property sales, this aspect should be considered through the master-planning and scheme progression stages.

3.8 Findings overview - Commercial

3.8.1 In terms of viability messages for the Plan delivery of commercial / non-residential development, the outcomes from this assessment provide a mixed viability picture which is more a consequence of the significant downturn which affected the commercial property markets in general to a greater degree even than the impacts seen on the residential side.

3.8.2 Whilst this market picture is now gradually turning around, the conditions outside prime locations and property types remain very mixed and are generally still some way from supporting speculative development in most cases. So far as we can see, the local market situation in North Hertfordshire reflects these conditions – so that there is increased lettings activity and take-up of sufficiently attractive empty space, but as yet no widespread signs of a more established return to significant development activity.

3.8.3 These areas of the assessment process involve the same principles of considering the strength of the value / cost relationships and explores that so far as appropriate through using residual valuation principles again.

3.8.4 As would be expected, the commercial / non-residential appraisal findings are wide-ranging when viewed overall. For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield as presenting a view of sample ranges within which capitalised net rents (completed scheme sales values - GDVs) could fall. Then we considered the strength of the relationship between the GDV and the development costs – the essence of the viability assessment.

- 3.8.5 A range of results is seen at Appendix IIb - from negative or marginal outcomes in many cases to those which are much more positive (essentially restricted to some retail scenarios).
- 3.8.6 Factors such as build costs clearly have an impact as well but, for the given scheme scenarios, are not likely to vary to an extent that makes this a more significant single driver of results than the values influences (rents and yields) outlined above. In practice, it will be the interaction of actual appraisal inputs (rather than these high level assessment assumptions) that determines specific outcomes. As with actual schemes though, again it is the interaction of the various assumptions (their collective effect) which counts more than individual assumption levels in most cases. There are some commercial or non-residential use types (for example at present many B Use development scenarios, where the development costs will not be met or will not be sufficiently exceeded by the completed values (GDVs) so as to promote viable development that supports both a sufficient developer's profit (risk reward) and return for the landowner.
- 3.8.7 From the research and findings, based on realistic current assumptions for the area we have to acknowledge the ongoing viability difficulties associated with these forms of development. This is not unusual, but again must be noted as a current finding that should again be subject to future review – with interesting changes in the market appearing to be continuing.
- 3.8.8 The key exception looks like being larger format retail (supermarkets, superstores, and potentially retail warehousing) which in common with most other viability studies that we have undertaken tends to be one of the few clearly viable forms of commercial development in a wider range of areas. This is likely to link to potential CIL funding scope from those forms of development if CIL is progressed in the future and they occur in the District. Provisionally, any town centre, and smaller shops / local parades type development, if occurring as new-build, is unlikely to support a meaningful CIL charge without added risk being added to its delivery prospects. This, again, can be seen from the Appendix IIa results summary tables.
- 3.8.9 Similarly, using assumptions considered locally appropriate we have found development uses such as hotels and care homes do not show any clear level of viability and viewed now, although subject to future review, this would also point

towards limited scope for any CIL charging beyond residential and some forms of retail development.

3.8.10 In respect of the current / short term prospects for business development viability, the work to date suggests poor outcomes and probably some degree of challenge in promoting development opportunities. Those will need to be in the most accessible, most valuable locations and work be undertaken with other agencies and the private sector to help facilitate delivery if the local market appetite develops for it given the current more mixed news noted within the commercial property sector. The Council's knowledge based economy initiatives may well be positive in this regard. However, at present the more positive signs are mainly relevant to prime property and locations. Overall, the current view of wider a sector needing to go through further recovery must be acknowledged.

3.8.11 We have carried out some initial high level consideration of other development uses such as leisure and other D use classes such as health, community facilities, clinics, nurseries etc. Bearing in mind the key development value / cost relationship that we are examining here, we found as typical that it was not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost (usually before consideration of other development costs) points to poor or (at best) marginal development viability. This is one of the key reasons why these forms of new-build development are generally not seen as stand-alone schemes, but tend to be provided as part of mixed use developments that are usually financially driven by residential and /or retail development. Much the same applies to a wide range of development uses. Further information is provided below.

3.8.12 The Council will need to keep all of this under review, a repeated theme here, and in the meantime will also need to work-up up its delivery strategies for employment supporting development so as to maximise opportunities as the market is able to respond and work creatively over time.

3.8.13 In the meantime, particularly in respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas. In addition to seeking to ensure that the approach to planning obligations (including any future CIL) does not add further uncertainty to potential investment, the Council could consider the following types of areas and initiatives (outside the formal scope of the brief for this assessment, but put forward purely as practical indications):

- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;
- Work with the market – be responsive etc. as suitable opportunities are identified;
- Regenerate / improve and protect key existing employment areas;
- Encourage suitable development;
- Provide land where assessed to be most needed;
- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;
- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;
- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for. Focus on the most accessible, best and most valuable locations for particular uses;
- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) or other development – balance the element in deficit or with reduced viability;
- Scenarios for particular / specialist uses – e.g. the local knowledge based employment economy; or that may be non-viable as developments but are business-plan / economic activity led;
- Explore any local specialisms or particular industries / sectors from which economic advantage and stimulation of other activity can be made;

- As with residential, consideration of the planning obligations packages again including their timing (triggers) as well as their extent.
- A likely acceptance that business development overall is unlikely to be a significant regular contributor to general community infrastructure provision in the short-term at least.
- Seek other investment and consider incentive schemes;

Main text of study report ends – Final Draft.

November 2014.

Appendices follow.