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South Sunderland Growth Area Infrastructure  
Delivery Study

Viability Assessment

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**FINAL DRAFT - December 2014**

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Issued 6<sup>th</sup> December 2014

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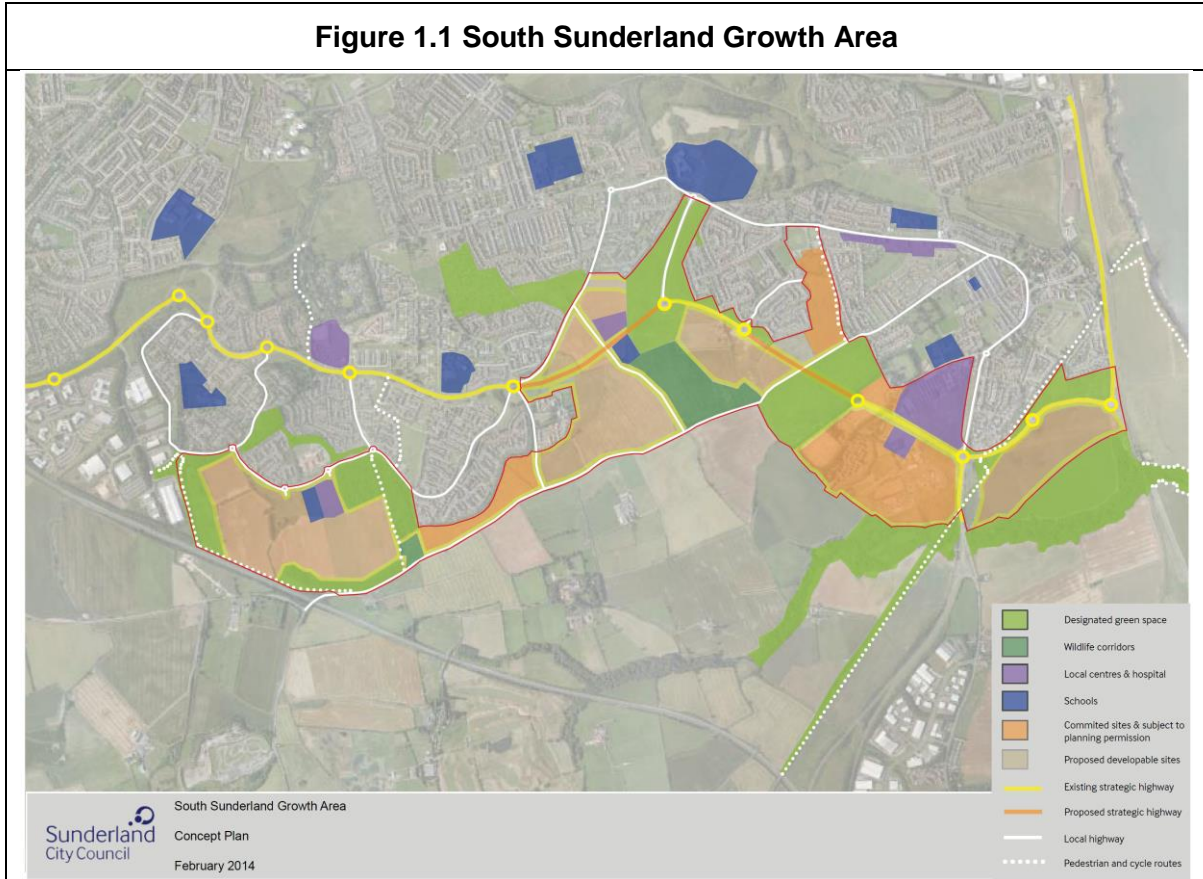
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# 1. Introduction

## Scope

1.1 Sunderland City Council has ambitious plans to bring forward the South Sunderland Growth Area (SSGA). The SSGA lies to the south Sunderland, covers some 198.52ha. It is anticipated that it will accommodate about 2,825 new homes as well as a number of other community uses:



1.2 The area is made up of 4 sub areas:

<b>Table 1.1 SSGA Sub-Sites</b>			
		Units	Area Ha
1	Chapel Garth	650	49.93
2	North of Burdon Lane	955	88.61
3	Cherry Knowle	770	37.48
4	South Ryhope	450	22.50

Source: Arup 2014

- 1.3 This viability study has been commissioned to inform the planning process, in particular in connection to the delivery of infrastructure and to assess whether or not there is a reasonable prospect of the proposed development being able to fund the infrastructure required to support development.
- 1.4 This document sets out the methodology used, the key assumptions adopted, and contains an assessment of deliverability of the Growth Area. Towards the end of this report we consider how the development may be delivered and how that relates to affordable housing and other development costs. This will allow the Council to engage with stakeholders, to ensure that their planning is effective and to develop a strategy for collecting developer contributions.
- 1.5 This study will draw on the existing available evidence, and concentrate on assessing the viability of a group of modelled sites that are representative of the residential sites that are most likely to come forward over the plan-period together with a range of non-residential uses.
- 1.6 This study is concerned with development viability which is just one element of the evidence that will be used to prepare the Plan and to set CIL. The Council will strike the balance of achieving their strategic objectives within the practical constraints and commercial realities of delivery. We take this early opportunity to highlight the limitations of this report. We discuss the Guidance we have worked to in later sections, we have followed the Harman Guidance. This says '*...the viability assessment is not there to give a straightforward 'yes or no' to development across the whole plan area or whole plan period*'.
- 1.7 The assumptions through this report have been arrived at through a process of engagement with the main developers involved in the various phases of the project.

### **Metric or imperial**

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

1m	=	3.28ft (3' and 3.37")	1ft	=	0.30m
1m <sup>2</sup>	=	10.76 sqft	1sqft	=	0.0929 m <sup>2</sup>

- 1.9 A useful broad rule of thumb to convert m<sup>2</sup> to sqft is simply to add a final zero.

## **2. Viability Testing**

- 2.1 Viability testing is an important part of the Development Plan making process. The requirement to assess viability forms part of the National Planning Policy Framework<sup>1</sup> (NPPF),

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<sup>1</sup> The NPPF was published and came into effect on 27<sup>th</sup> March 2012

The Planning Practice Guidance<sup>2</sup> (PPG), and is a requirement of the CIL Regulations<sup>3</sup>. In each case the requirement is slightly different but all have much in common.

## NPPF Viability Testing

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

### *Ensuring viability and deliverability*

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

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

- 2.3 The requirement to test in the NPPF is a 'broad brush' one saying 'plans should be deliverable'. It is not a requirement that every site should be able to bear all of the local authority's requirements – indeed there will be some sites that are unviable even with no requirements imposed on them by the local authority. The typical site in the local authority should be able to bear whatever target or requirement is set and the Council should be able to show, with a reasonable degree of confidence, that the Development Plan is deliverable. Having said this the SSGA forms a very significant element of the Council's proposals so it is important that the matters around viability (and therefore deliverability) are well understood.

- 2.4 The enabling and delivery of development is a priority of the NPPF. In this regard it says:

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

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<sup>2</sup> <http://planningguidance.planningportal.gov.uk/>

<sup>3</sup> **SI 2010 No. 948.** The Community Infrastructure Levy Regulations 2010 *Made 23rd March 2010, Coming into force 6th April 2010.* **SI 2011 No. 987.** The Community Infrastructure Levy (Amendment) Regulations 2011 *Made 28th March 2011, Coming into force 6th April 2011.* **SI 2011 No. 2918.** The Local Authorities (Contracting Out of Community Infrastructure Levy Functions) Order 2011. *Made 6th December 2011, Coming into force 7th December 2011.* **SI 2012 No. 2975.** The Community Infrastructure Levy (Amendment) Regulations 2012. *Made 28th November 2012, Coming into force 29th November 2012.* **SI 2013 No. 982.** The Community Infrastructure Levy (Amendment) Regulations 2013. *Made 24th April 2013, Coming into force 25th April 2013.* **SI 2014 No. 385.** The Community Infrastructure Levy (Amendment) Regulations 2013. *Made 24<sup>th</sup> February 2014, Coming into force 24<sup>th</sup> February 2014.*

- *use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies set out in this Framework, including identifying key sites which are critical to the delivery of the housing strategy over the plan period;*
- *identify and update annually a supply of specific deliverable<sup>11</sup> sites sufficient to provide five years' worth of housing against their housing requirements with an additional buffer of 5% (moved forward from later in the plan period) to ensure choice and competition in the market for land. Where there has been a record of persistent under delivery of housing, local planning authorities should increase the buffer to 20% (moved forward from later in the plan period) to provide a realistic prospect of achieving the planned supply and to ensure choice and competition in the market for land;*
- *identify a supply of specific, developable<sup>12</sup> sites or broad locations for growth, for years 6-10 and, where possible, for years 11-15;*
- *for market and affordable housing, illustrate the expected rate of housing delivery through a housing trajectory for the plan period and set out a housing implementation strategy for the full range of housing describing how they will maintain delivery of a five-year supply of housing land to meet their housing target; and*
- *set out their own approach to housing density to reflect local circumstances.*

2.5 Footnotes 11 and 12 of the NPPF are important in providing detail saying:

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

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

2.6 Some sites within the area will not be viable. In these cases developers have scope to make specific submissions at the planning applications stage; similarly some sites will be able to bear considerably more than the policy requirements. In the case of the SSGA the Council is seeking to demonstrate that it is deliverable in a series of co-ordinated phases.

### **SHLAA Viability Testing**

2.7 Paragraph 159 of the NPPF requires Planning Authorities to prepare a Strategic Housing Land Availability assessment (SHLAA) saying:

*Local planning authorities should have a clear understanding of housing needs in their area. They should:*

- *prepare a Strategic Housing Market Assessment.....*
- *prepare a Strategic Housing Land Availability Assessment to establish realistic assumptions about the availability, suitability and the likely economic viability of land to meet the identified need for housing over the plan period.*

2.8 The SSGA will form a key part of the Council's development land supply so it is important to understand how it may be delivered.



## CIL Economic Viability Assessment

2.9 CIL is a 'tax' on new development that the Council can introduce to raise funds to contribute towards the new infrastructure to support new development. CIL, once introduced, is mandatory on all developments (with a very few exceptions) that fall within the categories and areas where the levy applies, unlike other policy requirements to provide affordable housing or to build to a particular environmental standard over which there can be negotiations. This means that CIL must not prejudice the viability of most sites.

2.10 In March 2010 *Community Infrastructure Levy Guidance, Charge setting and charging schedule procedures* were published to support the CIL Regulations. These were replaced by *Community Infrastructure Levy, Guidance* (December 2012 and then April 2013), which in turn has been updated and replaced in February 2014. In June 2014 the CIL Guidance was assimilated into the PPG.

2.11 Regulation 14 (as amended) of the CIL Regulations says:

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

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

2.13 The test that will be applied to proposed rates of CIL are set out in the CIL Guidance, putting emphasis on demonstrating how CIL will be used to deliver the infrastructure required to support the Plan.

*The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.*

*This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1)), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.*

*As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), 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. The same principle applies in Wales.*

PPG ID: 25-009-20140612

2.14 The test is whether the sites and the scale of development identified in the Plan are subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened by CIL. This is somewhat more cautious than the approach set out in earlier guidance. In the March 2010 CIL Guidance, the test was whether the Plan was put at 'serious

risk', and in the December 2012 / April 2013 CIL Guidance, the test was whether CIL 'threatened the development plan as a whole' – although it is important to note that the CIL Regulation 14 is clear that the purpose of the viability testing is to establish 'the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area' rather in specific sites.

- 2.15 On preparing the evidence base on economic viability the Guidance says:

*A charging authority must use 'appropriate available evidence' (as defined in the Planning Act 2008 section 211(7A)) to inform their draft charging schedule. The Government recognises that the available data is unlikely to be fully comprehensive. Charging authorities need to demonstrate that their proposed levy rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole.*

*In addition, a charging authority should directly sample an appropriate range of types of sites across its area, in order to supplement existing data. This will require support from local developers. The exercise should focus on strategic sites on which the relevant Plan (the Local Plan in England, Local Development Plan in Wales, and the London Plan in London )] relies, and those sites where the impact of the levy on economic viability is likely to be most significant (such as brownfield sites).*

*The sampling should reflect a selection of the different types of sites included in the relevant Plan, and should be consistent with viability assessment undertaken as part of plan-making.*

PPG ID: 25-019-20140612

- 2.16 This study has drawn on the existing available evidence where it is available. In due course this study will form one part of the evidence that the Council will use to assess the deliverability of the SSGA, and to consider whether or not CIL may form an useful mechanism to fund infrastructure. The Council will also consider other 'existing available evidence', the comments of stakeholders and wider priorities.
- 2.17 Under changes to CIL Regulation 73, a local authority (at its discretion) can accept CIL 'in kind'. The changes to this Regulation have extended this provision from the payment of CIL through the transfer of land, to the payment through the transfer of infrastructure as well as land. These changes give the increased flexibility to both the Charging Authority and the developer allowing CIL to be 'paid' through the provision of infrastructure. This may be on site or nearby but is subject to strict rules.

### **Planning Practice Guidance (PPG)**

- 2.18 Viability is a recurring theme through the PPG, and it includes specific sections on viability in both the plan making and the development management processes. As set out above the NPPF says that plans should be deliverable and that 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. The PPG says:

*Understanding Local Plan viability is critical to the overall assessment of deliverability. Local Plans should present visions for an area in the context of an understanding of local economic conditions and market realities. This should not undermine ambition for high quality design and wider social and environmental benefit but such ambition should be tested against the realistic likelihood of delivery.*

*... viability can be important where planning obligations or other costs are being introduced. In these cases decisions must be underpinned by an understanding of viability, ensuring realistic decisions are made to support development and promote economic growth. Where the viability of a development is in question, local planning authorities should look to be flexible in applying policy requirements wherever possible.*

PPG ID: 10-001-20140306

2.19 These requirements are not new and are simply stating best practice and are wholly consistent with the approach taken by the Council over many years. An example is the inclusion of viability testing in relation to the affordable housing policy.

2.20 In the section on considering land availability, the PPG says:

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

PPG ID: 3-021-20140306

2.21 The PPG does not prescribe a single approach for assessing viability. The NPPF and the PPG both set out the policy principles relating to viability assessments. The PPG rightly acknowledges that a 'range of sector led guidance on viability methodologies in plan making and decision taking is widely available'.

*There is no standard answer to questions of viability, nor is there a single approach for assessing viability. The National Planning Policy Framework, informed by this Guidance, sets out the policy principles relating to viability assessment. A range of sector led guidance on viability methodologies in plan making and decision taking is widely available.*

PPG 10-002-20140306.

2.22 As set out later in this section, this study is carried out under the Harman Guidance and in accordance with the RICS Guidance, it also drew on the Planning Advisory Service resources and was informed by appeal decisions and CIL Examiner's reports.

2.23 The PPG does not require every site to be tested:

*Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable; site typologies may be used to determine viability at policy level. Assessment of samples of sites may be helpful to support evidence and more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies.*

PPG ID: 10-006-20140306

2.24 The SSGA forms a very significant element of the planned development within Sunderland. It is therefore necessary to consider its delivery separately.

2.25 'Viability Thresholds' are at the core of a viability assessment and are the controversial matter as it is clear that different landowners will take different approaches depending on their personal and corporate priorities. The assessment is based on an informed assumption being made about the 'uplift' being the margin above the 'existing use value' which would be sufficient to incentivise the landowner to sell. Both the RICS Guidance and the PPG make it

clear that when considering land value that this must be done in the context of current and emerging policies:

**Site Value definition** *Site Value either as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note as follows: 'Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.'*

*Box 7, Page 12, RICS Guidance*

*In all cases, estimated land or site value should: ...reflect emerging policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;...*

*PPG ID 10-014-20140306*

2.26 This supports the approach taken where the process is informed by past land transactions as well as considering an appropriate uplift.

2.27 The PPG stresses the importance of working from evidence and in collaboration with the development industry:

**Evidence based judgement:** *assessing viability requires judgements which are informed by the relevant available facts. It requires a realistic understanding of the costs and the value of development in the local area and an understanding of the operation of the market.*

*Understanding past performance, such as in relation to build rates and the scale of historic planning obligations can be a useful start. Direct engagement with the development sector may be helpful in accessing evidence.*

**Collaboration:** *a collaborative approach involving the local planning authority, business community, developers, landowners and other interested parties will improve understanding of deliverability and viability. Transparency of evidence is encouraged wherever possible. Where communities are preparing a neighbourhood plan (or Neighbourhood Development Order), local planning authorities are encouraged to share evidence to ensure that local viability assumptions are clearly understood.*

2.28 The price assumptions have been checked with the development industry – although there has also been an element of wider professional judgement in this regard.

2.29 The meaning of *competitive returns* is discussed in Section 6 below. The meaning of competitive return is at the core of a viability assessment. The RICS Guidance includes the following definition:

**Competitive returns** - *A term used in paragraph 173 of the NPPF and applied to 'a willing land owner and willing developer to enable development to be deliverable'. A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project.*

2.30 The PPG now adds to this saying:

*Competitive return to developers and land owners*

*The National Planning Policy Framework states that viability should consider "competitive returns to a willing landowner and willing developer to enable the development to be deliverable." This return will vary significantly between projects to reflect the size and risk profile of the development and the risks*

to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.

A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.

PPG ID: 10-015-20140306.

## Viability Guidance

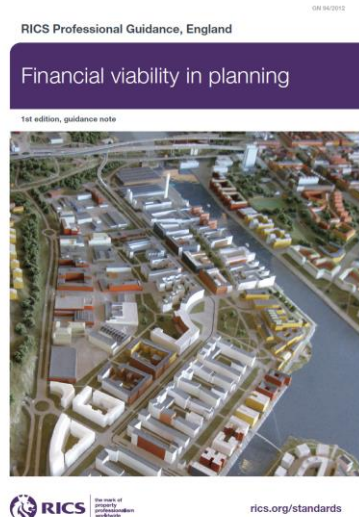
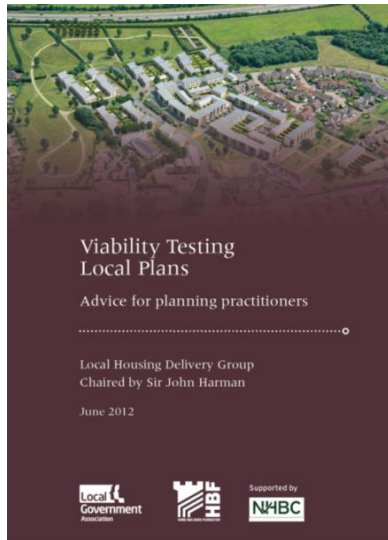
- 2.31 There is no specific technical guidance on how to test the viability in the PPG or in the CIL Regulations or Guidance. Paragraph 173 of the NPPF says: ‘..... To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.....’ This seems quite straightforward – although ‘competitive returns’ is not defined.
- 2.32 There are several sources of guidance and appeal decisions<sup>4</sup> that support the methodology we have developed. In this study we have followed the *Viability Testing in Local Plans – Advice for planning practitioners* (LGA/HBF – Sir John Harman) June 2012<sup>5</sup> (known as the **Harman Guidance**). This contains the following definition:
- An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.*
- 2.33 The planning appeal decisions, and the HCA good practice publication suggest that the most appropriate test of viability for planning policy purposes is to consider the Residual Value of schemes compared with the Existing Use Value (EUV), plus a premium. The premium over and above the EUV being set at a level to provide the landowner with a competitive return. The Harman Guidance and *Financial viability in planning*, RICS guidance note, 1st edition (GN 94/2012) during August 2012 (known as the **RICS Guidance**) set out the principles of viability testing. Additionally, the Planning Advisory Service (PAS)<sup>6</sup> also provide viability guidance and manuals for local authorities.

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<sup>4</sup> Barnet: APP/Q5300/ A/07/2043798/NWF, Bristol: APP/P0119/ A/08/2069226, Beckenham: APP/G5180/ A/08/2084559, Bishops Cleeve: APP/G1630/A/11/2146206 Burgess Farm: APP/U4230/A/11/2157433, CLAY FARM: APP/Q0505/A/09/2103599/NWF, Woodstock: APP/D3125/ A/09/2104658, Shinfield APP/X0360/ A/12/2179141, Oxenholme Road, APP/M0933/A/13/2193338 Vannes: Court of Appeal 22 April 2010, [2010] EWHC 1092 (Admin) 2010 WL 1608437

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

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



- 2.34 There is considerable common ground between the RICS and the Harman Guidance but they are not wholly consistent. The RICS Guidance recommends against the ‘current/alternative use value plus a margin’ – which is the methodology recommended in the Harman Guidance.

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

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

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

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

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

*Viability Testing in Local Plans – Advice for planning practitioners. June 2012*

- 2.36 The RICS dismisses a Threshold Land Value approach as follows.

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

- 2.37 Threshold Land Value is not recognised by the RICS. On face value these statements are contradictory. In order to avoid later delays, the approach taken in this study brings these two sources of guidance together. The methodology adopted is to compare the Residual Value generated by the viability appraisals, with the Existing Use Value (EUV) or an Alternative Use Value (AUV) plus an appropriate uplift to incentivise a landowner to sell. The amount of the

uplift over and above the existing use value is central to the assessment of viability. It must be set at a level to provide ‘competitive returns’<sup>7</sup> to the landowner. To inform the judgement as to whether the uplift is set at the appropriate level we make reference to the market value of the land both with and without the benefit of planning.

- 2.38 This approach is in line with that recommended in The Harman Guidance (as endorsed by LGA, PAS) – and also broadly in line with the main thrust of the RICS Guidance of having reference to market value. It is relevant to note that the Harman methodology was endorsed by the Planning Inspector who approved the London Mayoral CIL Charging Schedule in January 2012<sup>8</sup>. In his report, the Inspector dismissed the theory that using historical market value (i.e. as proposed by the RICS) to assess the value of land was a more appropriate methodology than using EUV plus a margin.

### **Viability Testing – Outline Methodology**

- 2.39 We have followed the Harman Guidance. The availability and cost of land are matters at the core of viability for any property development. The format of the typical valuation, which has been standard for as long as land has been traded for development is:

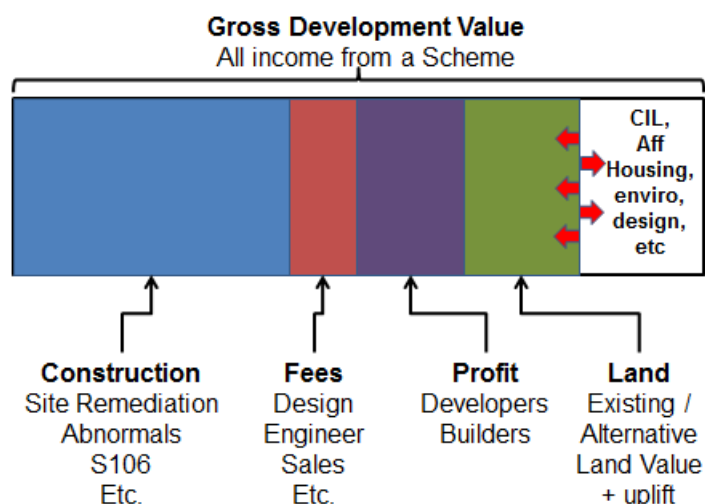
$$\begin{array}{r} \textbf{Gross Development Value} \\ \text{(The combined value of the complete development)} \\ \\ \text{LESS} \\ \\ \textbf{Cost of creating the asset, including a profit margin} \\ \text{(Construction + fees + finance charges)} \\ \\ = \\ \\ \textbf{RESIDUAL VALUE} \end{array}$$

- 2.40 The result of the calculation indicates a land value, the Residual Value, which is the top limit of what a bidder could offer for a site and still make a satisfactory profit margin.
- 2.41 In the following graphic the bar illustrates all the income from a scheme. This is set by the market (rather than by the developer or local authority) so is, to a large extent, fixed. The developer has relatively little control over the costs of development (construction and fees) and whilst there is scope to build to different standards and with different levels of efficiency the costs are largely out of the developer’s direct control – they are what they are depending on the development.

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<sup>7</sup> As required by 173 of the NPPF

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



- 2.42 It is well recognised in viability testing that the developer should be rewarded for taking the risks of development. The NPPF terms this the '*competitive return*'. The essential balance in viability testing is around the land value and whether or not land will come forward for development. The more policy requirements and developer contributions the planning authority asks for the less the developer can afford to pay for the land. The purpose of this study is to quantify the costs of the Council's various policies on development and then make a judgement as to whether or not land prices are squeezed to such an extent that, in the NPPF context that the Development Plan is put at 'serious risk' or in the context of CIL whether development threatened to such an extent that the Plan is not delivered.
- 2.43 It is important to note that in this study we are not trying to exactly mirror any particular developer's business model – rather we are making a broad assessment of viability in the context of Plan making and the requirements of the NPPF and CIL Regulations.
- 2.44 'Likely land value' is a difficult topic since a landowner is unlikely to be entirely frank about the price that would be acceptable, always seeking a higher one. This is one of the areas where an informed assumption has to be made about the 'uplift': the margin above the 'existing use value' which would make the landowner sell.

### The meaning of 'competitive return'

- 2.45 The meaning of '*competitive return*' is at the core of a viability assessment. The RICS Guidance includes the following definition:

**Competitive returns** - A term used in paragraph 173 of the NPPF and applied to 'a willing land owner and willing developer to enable development to be deliverable'. A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project.



- 2.46 Whilst this is useful it does not provide guidance as to the size of that return. To date there has been much discussion within the industry as to what may and may not be a competitive return, as yet the term has not been given a firm definition through the appeal, planning examination or legal processes. Competitive return was considered at the Shinfield<sup>9</sup> Appeal, although more recently, further clarification has been added in the Oxenholme Road Appeal<sup>10</sup> where the inspector confirmed that the principle set out in Shinfield is very site specific and should only be given limited weight.
- 2.47 It should be noted that this study is about the economics of development. Viability brings in a wider range than just financial factors. The PPG says:

*Understanding Local Plan viability is critical to the overall assessment of deliverability. Local Plans should present visions for an area in the context of an understanding of local economic conditions and market realities. This should not undermine ambition for high quality design and wider social and environmental benefit but such ambition should be tested against the realistic likelihood of delivery.*

### **Existing Available Evidence**

- 2.48 The NPPF, the CIL Regulations and CIL Guidance are clear that the assessment of the potential impact of CIL should, wherever possible be based on existing available evidence rather than new evidence. We have reviewed the evidence that is available from the Council. This falls into three broad types:
- 2.49 The first is that which has been prepared by the Council to inform its Local Development Framework (LDF) and in particular the Core Strategy. We have drawn on the *Economic Viability of Affordable Housing Requirements Study for Sunderland District Council, arc4 (March 2014)*.
- 2.50 Secondly, the Council holds in the form of development appraisals that have been submitted by developers in connection with specific developments – most often to support negotiations around the provision of affordable housing or s106 contributions. We recommend that the Council draws on this source of information as well as this report.
- 2.51 Our approach has been to draw on this existing evidence and to consolidate it so that it can then be used as a sound base for setting the affordable housing target and the levels of CIL.
- 2.52 Thirdly, the Council also holds evidence of what is being collected from developers under the s106 regime. The Council is in the process of collating information on developer contributions (including affordable housing) and the amounts that have actually been collected from developers. We recommend that the Council draws on this source of information.

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<sup>9</sup> APP/X0360/A/12/2179141 (Land at The Manor, Shinfield, Reading RG2 9BX)

<sup>10</sup> APP/M0933/ A/13/ 2193338 (Land to the west of Oxenholme Road, Kendal, Cumbria)

### 3. Viability Methodology

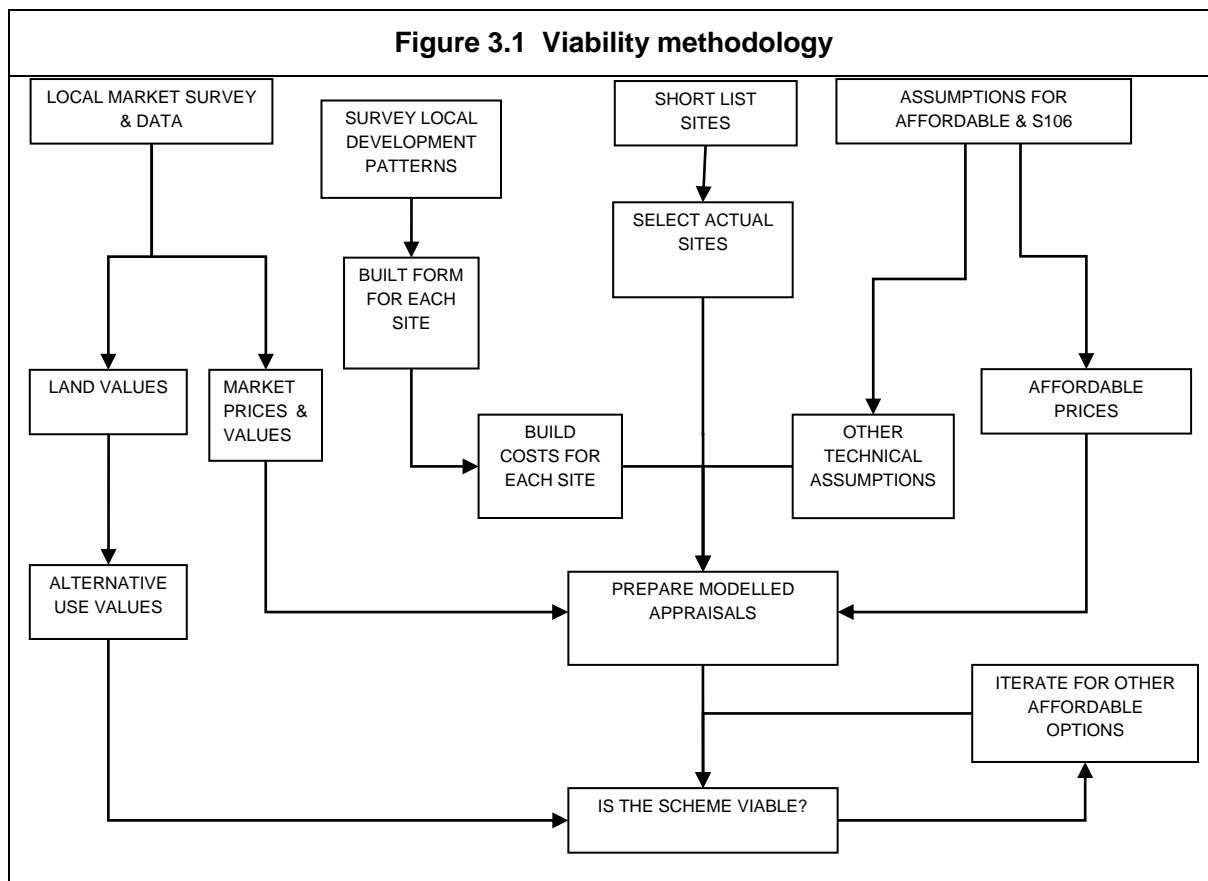
- 3.1 The assessment of viability as required under the NPPF and the CIL Regulations is not done through a calculation or a formula. It is a quantitative and qualitative assessment based on professional judgment. The NPPF requires that *'the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened'*<sup>11</sup> and whether *'the cumulative impact of these standards and policies should not put implementation of the plan at serious risk'*<sup>12</sup>. The CIL Regulations requires *'councils must strike an appropriate balance between (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability'*<sup>13</sup>.
- 3.2 The basic viability methodology is summarised in Figure 3.1 below. It involves preparing financial development appraisals for the component parts of the SSGA and using these to assess whether the development anticipated is likely to be viable when subject to the Council's policies and whether the costs of infrastructure can be borne by the development.
- 3.3 Details of the site modelling are set out in section 9 below. The sites were modelled based on discussions with Council officers, the existing available evidence supplied to us by the Council, and on our own experience of development. This process ensures that the appraisals are representative of typical development.

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<sup>11</sup> NPPF Paragraph 173

<sup>12</sup> NPPF Paragraph 174

<sup>13</sup> CIL Regulation 14



Source: HDH 2014

- 3.4 The appraisals are based on the policies set out in the *Sunderland Local Plan: Core Strategy and Development Management Policies, Draft Revised Preferred Options, (August 2013)*. This is the most recent version of the evolving Local Plan. We have worked from the most recent iteration and informed by discussions with officers about the direction of future policy requirements. For appropriate sensitivity testing we have assessed of a range of scenarios including different levels of affordable housing provision and different levels of developer contributions.
- 3.5 Kevan Carrick of JKPC ( also working as sub-contractors to Arup) surveyed the local housing and commercial markets, in order to obtain a picture of sales values. They have also assessed land values to calibrate the appraisals and to assess alternative use values. Alongside this we considered local development patterns, in order to arrive at appropriate built form assumptions for those sites where information from a current planning permission or application was not available. These in turn informed the appropriate build cost figures. A number of other technical assumptions were required before appraisals could be produced. The appraisal results were in the form of £/ha 'residual' land values, showing the maximum value a developer could pay for the site and still return a target profit level.
- 3.6 The Residual Value was compared to the Existing Use Value (EUV) for each site. Only if the residual value exceeded the alternative figure, and by a satisfactory margin, could the scheme be judged to be viable.

3.7 We have used a bespoke viability testing model designed and developed by us specifically for area wide viability testing as required by the NPPF and CIL Regulations<sup>14</sup>. The purpose of the viability model and testing is not to exactly mirror any particular business model used by those companies, organisations and people involved in property development. The purpose is to capture the generality and to provide high level advice to assist the Council in assessing the deliverability of the SSGA rather than to replicate a particular developers appraisals.

## 4. South Sunderland Property Market

4.1 Kevan Carrick of JKPC (working as sub-contractors to Arup) surveyed the local housing and commercial markets, in order to obtain a picture of sales values. The results of that work are set out in **Appendix 1** of this report.

### The Residential Market

4.2 The following residential prices have been carried into the financial development appraisals from JKPC's work. These have been applied across all sites – although we acknowledge there will be differences both within schemes as well as between schemes however this is an appropriate approach in this high level study:

<b>Table 4.1 Residential Values – Market Housing</b>				
	Beds	m2	£/Unit	£/m2
Flat	1	45	65,000	1,444
	2	62	85,000	1,371
Terrace	2	65	110,000	1,692
	3	75	150,000	2,000
Semi-detached	2	85	130,000	1,529
	3	95	180,000	1,895
Detached	3	110	190,000	1,727
	4	135	370,000	2,741
	5	150	425,000	2,833
	6	200	550,000	2,750

Source: JKPC December 2014

4.3 It is important to note that these values are based on a high quality scheme with ample open space – such as those based on Garden City principles. There is a consensus in between HDH and JKPC that for these values to be achieved the houses offered will need to stand apart from the general offering in the market of new build homes. There are a number of routes to this (such as implementing a Garden Suburb layout.).

<sup>14</sup> This Viability Model has is used as the basis for the Planning Advisory Service (PAS) viability Workshops.

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

### Affordable Housing

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

#### *Social Rent*

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

<b>Table 4.2 Social Rent (£)</b>			
	1 Bedroom	2 Bedrooms	3+ Bedrooms
Per week	65.65	74.36	82.46
Per Month	284.48	322.23	357.33
Per Year	3,413.80	3,866.72	4,287.92

Source: The COntinuous REcording of Letting and Sales in Social Housing in England (CORE) August 2014

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

4.8 In the 2011 *Economic Viability of Affordable Housing Requirements Study for Sunderland District Council, arc4 (March 2014)*, it was assumed all affordable housing would be delivered as Affordable Rent so the value of social rent was not considered. In calculating the value of affordable rents we have allowed for 10% management costs, 4% voids and bad debts and 6% repairs, and capitalised the income at 5.25%. On this basis social rented property has the following worth.

<b>Table 4.3 Value of Social Rent (£)</b>			
	1 Bed	2 Bed	3 Bed
Gross Rent (£/year)	3,414	3,867	4,288
Management and repairs (£/year)	683	773	858
Net Rent (£/year)	2,731	3,093	3,430
Capital Value (£)	52,020	58,921	65,340
Unit Size (m <sup>2</sup> )	45	65	82
£/m <sup>2</sup>	1,156	906	797

Source: SSGA IDS Viability Assessment (HDH 2014)

- 4.9 This is a simplification of the reality but appropriate in this high level study. It is important to note that the modelling in this study is based on affordable rent rather than social rent.

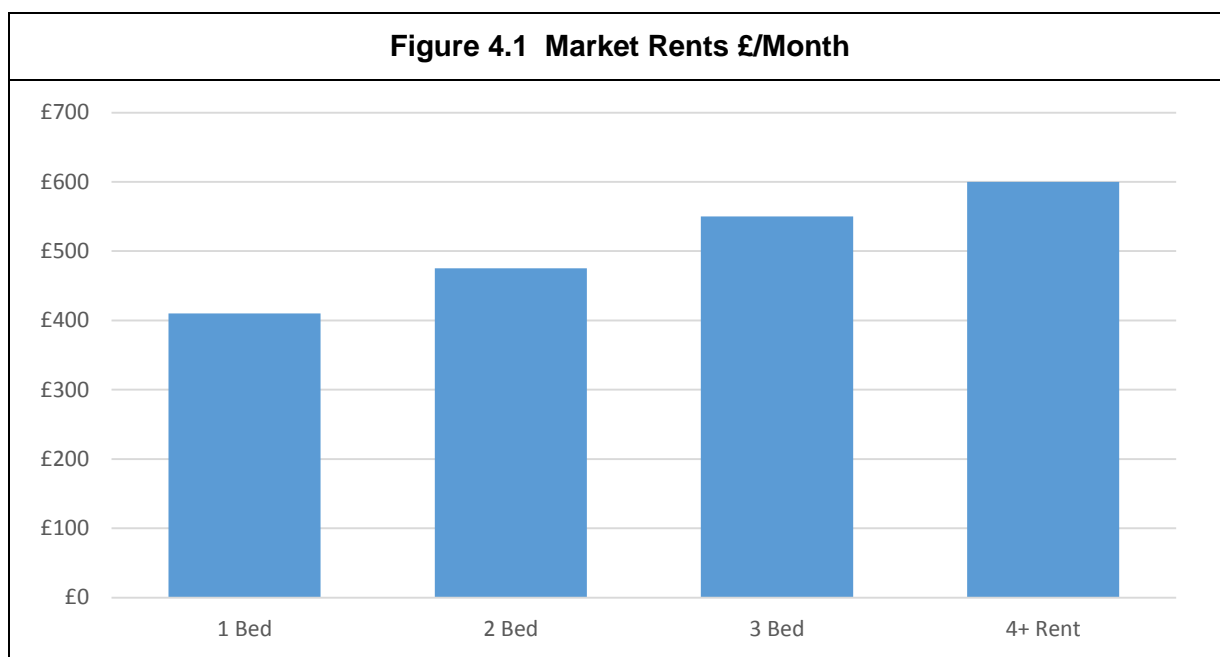
#### *Affordable Rent*

- 4.10 The Government introduced Affordable Rent as a 'new' type of Affordable Housing. Under Affordable Rent a rent of no more than 80% of the open market rent for that unit can be charged. One of the aims of the Government's policy on affordable housing is to make the HCA budget go further. The affordable rent that is over and above the social rent is used by Registered Providers (RPs) to raise capital through borrowing or securitisation<sup>15</sup>. This supports the building of the affordable units – the extra borrowing replacing grant.
- 4.11 The objective of affordable rent is that by charging higher rents for the affordable housing, less grant and subsidy is required and thus the development of affordable housing would be self-funded as, on market housing led schemes, grant is only now available in exceptional circumstances, for example on high priority sites where there is still a funding gap after the higher affordable rent has been allowed for. As the amount is uncertain we have assumed no grant will be available in the future.
- 4.12 In the development of affordable housing for rent, the value of the units is, in large part, the worth of the income that the completed let unit will produce. This is the amount an investor (or another RP) would pay for the completed unit. This will depend on the amount of the rent and the cost of managing the property (letting, voids, rent collection, repairs etc.).
- 4.13 Following discussion with the Council's housing officers, we have assumed the rent is to be set at 80% of the full open market rent. This is a similar approach to that taken in the *Economic Viability of Affordable Housing Requirements Study for Sunderland District Council, arc4 (March 2014)*. We have assumed that, because a typical affordable rent unit will be new, it will command a premium rent that is a little higher than equivalent older private sector accommodation. In estimating the likely level of affordable rent, we have undertaken a survey of market rents across the South side of the City area. Generally rents are quite constant across the area with little difference associated with the different neighbourhoods. Where there

<sup>15</sup> The creation and issuance of tradable securities, such as bonds, that are backed by the income generated by an asset, a loan, a public works project or other revenue source. (Source FT Lexicon)



are differences these are associated with the condition of the property of the immediate surroundings – rather than the general location.



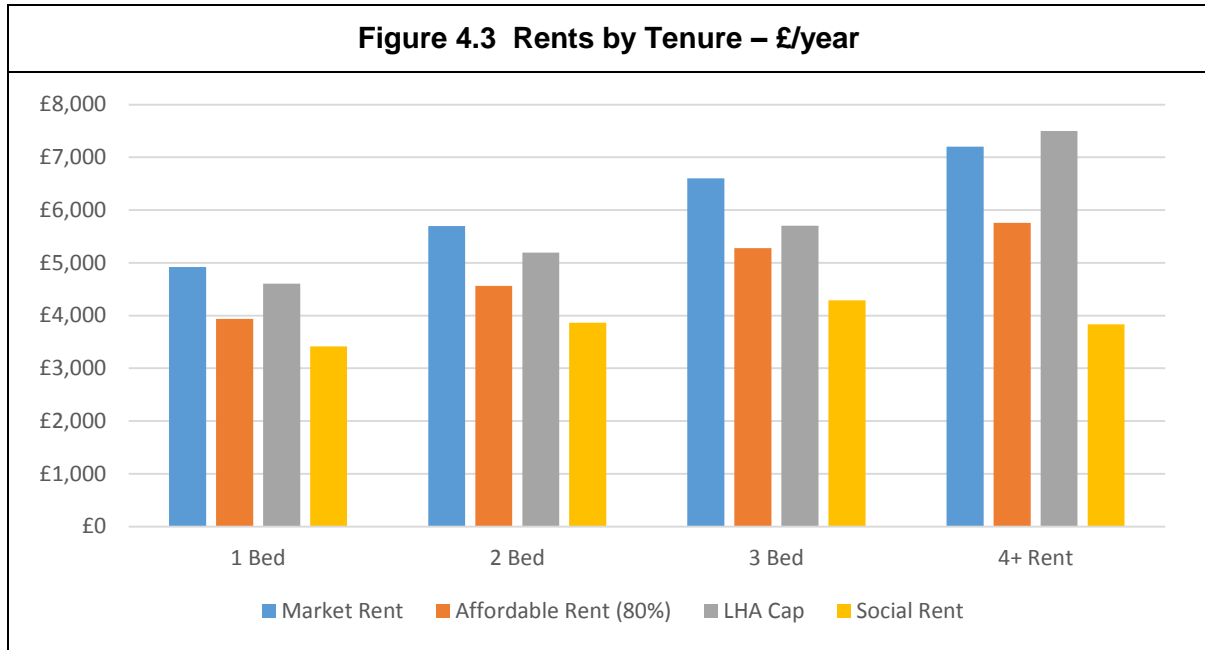
Source: Market Survey March 2014

- 4.14 As part of the reforms to the social security system, housing benefit /local housing allowance is capped at the 3<sup>rd</sup> decile of open market rents for that property type, so in practice affordable rents are unlikely to be set above these levels. The cap is set by the Valuation Office Agency by Broad Housing Market Area (BHMA) however these BHMA's do not follow local authority boundaries. The caps applying to the Growth Area are as follows:

Shared Accommodation	£45.00
One Bedroom	£88.57
Two Bedrooms	£99.92
Three Bedrooms	£109.62
Four Bedrooms	£144.23

Source: VOA August 2014

- 4.15 Where the LHA cap is below the level of Affordable Rent at 80% of the median rent we would assume that the Affordable Rent is set at the LHA Cap. This does not apply in the study area:



Source: Market Survey and VOA August 2014

- 4.16 In calculating the value of affordable rents we have allowed for 10% management costs, 4% voids and bad debts and 6% repairs, and capitalised the income at 5.5%. On this basis Affordable rented property has the following worth in the main settlements.

**Table 4.8 Capitalisation of Affordable Rents**

	1 Bed	2 Bed	3 Bed	4+ Rent
Market Rent (£/year)	3936	4560	5280	5760
Management and repairs (£/year)	787	912	1,056	1,152
Net Rent (£/year)	3,149	3,648	4,224	4,608
Capital Value (£)	57,251	66,327	76,800	83,782
Unit Size (m <sup>2</sup> )	45	65	82	95
£/m <sup>2</sup>	1,272	1,020	937	882

Source: SSGA IDS Viability Assessment (HDH 2014)

- 4.17 These figures are lower than those used in the *Economic Viability of Affordable Housing Requirements Study for Sunderland District Council, arc4 (March 2014)* where a 6% yield was used to capitalise the gross rent and no allowance was made for movement and repairs.
- 4.18 The following values are used in this study. These have been refined in discussion with the development industry:



<b>Table 4.9 Residential Values – Affordable Housing</b>				
	Beds	m2	£/Unit	£/m2
Flat	1	45	52,000	1,156
	2	67	70,000	1,045
Terrace	2	75	75,000	1,000
	3	82	78,000	951
Semi-detached	2	80	73,000	975
	3	85	76,000	894
Detached	3	86	80,000	930
	4	100	83,000	830

Source: JKPC November 2014

4.19 These values are used across all sites.

*Intermediate Products for Sale*

4.20 Intermediate products for sale include shared ownership and shared equity products. The market for these is difficult at present and we have found little evidence of the availability of such products in the study area.

4.21 We have assumed the disposal of a 50% share with a rent of 2% being charged on the ‘un-sold’ equity. The rental element has been capitalised at 5%.

*Grant Funding*

4.22 For many years, the HCA and Local Planning Authorities (LPAs) have aspired to ensure that affordable housing is delivered without grant. When LPAs have negotiated with developers during the planning process, about the number and type of affordable housing to be provided through s106 agreements and planning conditions, the initial basis of those discussions has usually been that the affordable units would be made available without any grant.

4.23 In this study we have assumed that grant is not available.

## 5. Non-Residential Property Market

5.1 The SSGA does not include employment areas (ie office, industrial or logistic uses). It does however include a number of small retail and some community uses. We have assumed that these are cost neutral (that is to say the cost of development is more or less equal to the cost of provision) and have therefore not modelled these small shops.

## 6. Land Prices

6.1 In Sections 2 and 3 we set out the methodology used in this study to assess viability. An important element of the assessment, under both sets of guidance, is the value of the land.



Under the method recommended in the Harman Guidance, the worth of the land before consideration of any increase in value, from a use that may be permitted though a planning consent, is the Existing Use Value (EUV) or Alternative Land Value (ALV). We use this as the starting point for the assessment as this is one of the key variables in the financial development appraisals.

6.2 In this section we have considered the values of different types of land. The value of land relates closely to the use to which it can be put and will range considerably from site to site; however, as this is a high level study, we have looked at the three main uses, being: agricultural, residential and industrial. We have then considered the amount of uplift that may be required to ensure that land will come forward.

### **Current and Alternative Use Values**

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

6.4 The NPPG includes a definition of land value as follows:

#### **Land Value**

*Central to the consideration of viability is the assessment of land or site value. The most appropriate way to assess land or site value will vary but there are common principles which should be reflected.*

*In all cases, estimated land or site value should:*

- *reflect emerging policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;*
- *provide a competitive return to willing developers and land owners (including equity resulting from those building their own homes); and*
- *be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.*

*NPPG ID: 10-014-20140306*

6.5 It is important to fully appreciate that land value should reflect emerging policy requirements and planning obligations. When considering comparable sites, the value will need to be adjusted to reflect this requirement.

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

6.7 For the purpose of the present study, it is necessary to take a comparatively simplistic approach to determining the alternative use value. In practice, a wide range of considerations

could influence the precise value that should apply in each case, and at the end of extensive analysis the outcome might still be contentious.

6.8 Our 'model' approach is outlined below:

- i. For sites previously in agricultural use, then agricultural land represents the existing use value. This is the bulk of the site.
- ii. Where the development is on brownfield land we have assumed an industrial value.

*Residential Land*

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

6.10 The VOA publishes figures for residential land in the Property Market Report. These cover areas which generate sufficient activity to discern a market pattern. That means locally we have figures for Newcastle. These values can only provide broad guidance, they can therefore be only indicative, and it is likely that values for 'oven ready' land (i.e. land with planning consent and ready for immediate building) with no affordable provision or other contribution, or servicing requirement, are in fact higher.

<b>Table 6.1 Residential Land Values at January 2011 Bulk Land</b>	
£/ha (£/acre)	
Newcastle	1,280,000 (518,000)

Source: VOA Property Market Report 2011

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

6.12 It should be noted that the above values will assume that grant was available to assist the delivery of affordable housing. This grant is now very restricted so these figures should be given limited weight. Due to the date of the report, these values are before the introduction of CIL, so do not reflect this new charge on development. As acknowledged by the RICS Guidance a new charge such as CIL will inevitably impact (a negative one) on land values.



- 6.13 The values of residential land were discussed with the key developers. Prices of about £1,235,000/ha (£500,000/acre), calculated over the gross site area were suggested. We have treated this with some caution as not only is it substantially above the rate suggested by the VOA's property market report (as it is calculated on a gross rather than a net basis) but it is also somewhat above our expectation for 'bulk' land for large urban extensions in this area.
- 6.14 In this context it is relevant to draw on work undertaken in County Durham. Research was undertaken (drawing on information, in the public domain, from the Land Registry) looking at sales of development land. Some of the information is somewhat historic, going back to 2002 but this has the advantage of including the transactions from across the full economic cycle. All the transactions took place before the introduction of CIL and in a different policy environment (different affordable housing requirements etc). It is inevitable that land prices will adjust and reflect these in due course. This is acknowledged in the RICS Guidance and has been acknowledged through the CIL Examination process.
- 6.15 Prices vary site by site as we would expect, at the bottom of the range there are a significant number of transactions where land has been purchased at or very close to agricultural values. At the top end of the range there are a few transactions in the range of £500,000 to £600,000/acre. This equates to approximately £1.2m to £1,5m/ha. We would consider these highest values to be 'significantly above the market norm' and have afforded them limited weight.
- 6.16 The remaining transactions the prices can be sorted into price bands as follows:

<b>Table 6.2 Redevelopment Land Values in County Durham</b>	
<b>Price Band</b>	<b>Transactions</b>
Less than £9,999/acre Less than £24,706/ha	3
£10,000 to £99,999/acre £24,707 to £247,059/ha	6
£100,000 to £199,999/acre £247,060 to £494,199/acre	2
£200,000 to £299,000/acre £494,200 to £741,299/ha	1
£300,000 to £399,000/acre £741,300 to £988,399/ha	2
£400,000 to £500,000/acre £988,400k to £1,235k/ha	1

Source: Durham Local Plan Evidence Base

- 6.17 The above figures are on a gross basis so includes areas of open space and the like.
- 6.18 It is necessary to make an assumption about the value of residential land. We have assumed a value of £500,000/ha (£200,000/acre) for residential land. This amount is on a net developable basis to exclude the areas of open space and the like. It is appropriate to make



such an assumption as, it is inevitable that CIL will depress land prices somewhat (as recognised by the Greater Norwich CIL Inspector).

*Industrial Land*

6.19 The VOA's typical industrial land values for the nearby locations are set out in the table below.

<b>Table 6.3 Industrial land values £/ha (/acre)</b>	
Newcastle	235,000 (£95,000)

Source: VOA Property Market Report 2011

6.20 The figures in the above table reflect the downturn in values from 2008. Based on this we have assumed figures of £250,000/ha (£100,000/acre) for the study area.

*Agricultural*

6.21 Agricultural values rose for a time several years ago after a long historic period of stability. Values are around £15,000-£25,000/ha depending upon the specific use. A benchmark of £20,000/ha is assumed to apply here.

**Use of alternative use benchmarks**

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

6.23 Competitive return has not been fully defined through planning appeals and the court system<sup>16</sup>. The RICS Guidance includes the following definition:

**Competitive returns** - *A term used in paragraph 173 of the NPPF and applied to 'a willing land owner and willing developer to enable development to be deliverable'. A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in*

<sup>16</sup> In this context the following CIL Examination are relevant.

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

**Greater Norwich Development Partnership** – for Broadland District Council, Norwich City Council and South Norfolk Council. by Keith Holland BA (Hons) Dip TP, MRTPI ARICS Date: 4 December 2012



accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project.

6.24 The NPPG includes the following section:

**Competitive return to developers and land owners**

*The National Planning Policy Framework states that viability should consider “competitive returns to a willing landowner and willing developer to enable the development to be deliverable.” This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.*

*A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy. NPPG ID: 10-015-20140306.*

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

*38. Paragraph 173 of the Framework advises that to ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable. The Framework provides no advice as to what constitutes a competitive return; the interpretation of that term lies at the heart of a fundamental difference between the parties in this case. The glossary of terms appended to the very recent RICS guidance note Financial viability in planning (RICS GN) says that a competitive return in the context of land and/ or premises equates to the Site Value (SV), that is to say the Market Value subject to the assumption that the value has regard to development plan policies and all other material considerations and disregards that which is contrary to the development plan. It is also the case that despite much negotiated agreement, in respect of calculating the viability of the development, other significant areas of disagreement remain.*

**Competitive return**

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

*65. Paragraph 173 of the Framework says that the costs of any requirements should provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable. The paragraph heading is “Ensuring viability and deliverability”; it is clear that its objective is to ensure that land comes forward for development. I am not convinced that a land value that equates to the EUV/CUV*

would provide any incentive to the landowner to sell the site. Due to the particular circumstances of this site, including the need to remediate the highly significant level of contamination, such a conclusion would not provide any incentive to the landowner to carry out any remediation work. There would be no incentive to sell the land and so such a low return would fail to achieve the delivery of this site for housing development. In these circumstances, and given the fact that in this case only two very different viewpoints on what constitutes a competitive return have been put forward, the appellants' conclusions are to be preferred. In the scenario preferred by the Council, I do not consider that the appellants would be a willing vendor.

### **Viable amount of Affordable Housing**

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

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

- 6.26 More recently, further clarification has been added in the Oxenholme Road Appeal. This appeal related to a site to the south east of Kendal. The inspector confirmed that the principle set out in Shinfield is very site specific and should only be given limited weight. At Oxenholme Road the inspector said:

47. The parties refer to an appeal decision for land at Shinfield, Berkshire, which is quoted in the LADPD Viability Study. However, little weight can be given to that decision in the present case, as the nature of the site was quite different, being partly previously developed, and the positions taken by the parties on the proportion of uplift in site value that should be directed to the provision of affordable housing were at odds with those now proposed. There is no reason in the present case to assume that either 100% or 50% of the uplift in site value is the correct proportion to fund community benefits.

48. Both the RICS Guidance Note and the Harman report comment on the danger of reliance on historic market land values, which do not take adequate account of future policy demands.....

- 6.27 It is clear that for land to be released for development, the uplift over the existing use value needs to be sufficiently large to provide an incentive to the landowner to release the site and cover any other appropriate costs required to bring the site forward for development. It is therefore appropriate and an important part of this assessment to have regard to the market value of land as it stands. However the Shinfield appeal was determined on the specific

circumstances that were put forward to the inspector. Whilst it sets out an approach it does not form a binding precedent, appeals will continue to be determined on the facts that relate to the particular site in question. At Shinfield the inspector only considered the two approaches put to him and did not consider the landowners' competitive return in any other ways. The appellant's method and approach was preferred to the Council's – but it should not be considered to be the only acceptable approach.

- 6.28 The RICS Guidance recognises that the value of land will be influenced by the requirements imposed by planning authorities. It recognises that the cost to the developer of providing affordable housing, building to increased environmental standards, and paying CIL, all have a cumulative effect on viability and are reflected in the ultimate price of the land. A central question for this study is at what point do the requirements imposed by the planning authorities make the price payable for land so unattractive that it does not provide competitive returns to the land owner, and so does not induce the owner to make the land available for development.
- 6.29 The reality of the market is that each and every land owner has different requirements and different needs and will judge whether or not to sell by their own criteria. We therefore have to consider how large such an 'uplift' or 'cushion' should be for each type of site to broadly provide a competitive return. The assumptions must be a generalisation as in practice the size of the uplift will vary from case to case depending on how many landowners are involved, each landowner's attitude and their degree of involvement in the current property market, the location of the site and so on. An 'uplift' of, say, 5% or £25,000/ha might be sufficient in some cases, whilst in a particular case it might need to be five times that figure, or even more.
- 6.30 Initially, based on work we have done elsewhere, we assumed that the Viability Threshold (being the amount that the Residual Value must exceed for a site to be viable) of the EUV / AUV plus a 20% uplift on all sites would be sufficient. This is supported both by work we have done elsewhere and by appeal decisions (see Section 2). Based on our knowledge of rural development, and from working with farmers, landowners and their agents, we have made a further adjustment for those sites coming forward on greenfield land. We added a further £250,000/ha (£100,000/acre) to reflect this premium. We have also added this amount to sites that were modelled on land that was previously paddock.
- 6.31 We fully accept that this is a simplification of the market, however in a high level study of this type that is based on modelled sites, simplifications and general assumptions need to be made. This methodology does reflect a very considerable uplift for a landowner selling a greenfield site with consent for development<sup>17</sup>. In the event of the grant of planning consent they would receive over ten times the value compared with before consent was granted. This approach is the one suggested in the *Viability Testing Local Plans* (see Section 2 above) and

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<sup>17</sup> See Chapter 2 for further details and debate around EUV plus v Market Value methodologies.



by the Planning Advisory Service (PAS). The approach was endorsed by the Planning Inspector who approved the London Mayoral CIL Charging Schedule in January 2012<sup>18</sup>.

- 6.32 We have considered how these amounts relate to prices for land in the market (see above) and with a view to providing competitive returns to the land owner. Whilst there are certainly land transactions at higher values than these we do believe that these are appropriate for a study of this type.
- 6.33 It is useful to review the assumptions used in other studies in other parts of England. We have reviewed viability thresholds used by other councils in England in development plans approved during the first half of 2014. These are set out in the table below.

<b>Table 6.4 Viability thresholds used elsewhere</b>		
<b>Local Authority</b>	<b>Developer's Profit</b>	<b>Threshold Land Value</b>
Banbergh	0.17	£370,000/ha
Cannock Chase	20% on GDV	£100,000-£400,000/ha
Christchurch & East Dorset	20% on GDC	£308,000/ha (un-serviced)
		£1,235,000/ha (serviced)
East Hampshire	20% market/6% Affordable	£450,000/ha
Erewash	0.17	£300,000/ha
Fenland	15-20%	£1-2m/ha (serviced)
GNDP	20% market/17.5% large sites/6% Affordable	£370,000-£430,000/ha
Reigate & Banstead	17.5% market/6% Affordable	£500,000/ha
Stafford	20% (comprising 5% for internal overheads).	£250,000/ha
Staffordshire Moorlands	17.5% market/6% Affordable	£1.26-£1.41m/ha (serviced)
Warrington	0.175	£100,000-£300,000/ha

Source: Planning Advisory Service (collated by URS) July 2014

- 6.34 It is interesting to note that the figures suggested for residential land put forward by the developers are close to the value for serviced land rather than the situation in the SSGA where the land is serviced. Care has to be taken drawing on such general figures without understanding the wider context and other assumptions in the studies but generally the assumption used in this work are within the range.
- 6.35 Interestingly the assumptions with regard to developers' return / profit are at the upper end of the range. Together these assumptions illustrate the generally cautious approach taken

<sup>18</sup> Paragraphs 7 to 9 of REPORT ON THE EXAMINATION OF THE DRAFT MAYORAL COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE by Keith Holland BA (Hons) DipTP MRTPI ARICS an Examiner appointed by the Mayor Date: 27<sup>th</sup> January 2012

through the viability work and the comments made by the development industry and landowners through the consultation process.

6.36 There is no doubt that CIL will be an additional cost on some development sites, and that some sites may not be able to bear the costs of all the requirements a planning authority makes – such as delivering affordable homes and higher environmental standards. This is noted in the RICS Guidance which recognises that there may well be a period of adjustment in the price of land following the introduction of CIL.

6.37 In this study we have assumed alternative land prices of:

i.	Agricultural Land	£20,000/ha
ii.	Industrial Land	£250,000/ha
iii.	Residential Land	£500,000/ha.

6.38 In this study it has been assumed that an appropriate Viability Threshold (the amount which the Residual Value should exceed for a site to be viable) would be, across the whole site area, Existing Use Value plus 20% plus a further £250,000/ha on greenfield sites would be correct – so long as a value that was also in excess of £500,000 per net developable ha was achieved.

## 7. Appraisal Assumptions – Development Costs

7.1 This section considers the costs and other assumptions required to produce financial appraisals for the modelled sites.

### Development Costs

#### *Construction costs: baseline costs*

7.2 We have based the cost assumptions on the Building Cost Information Service (BCIS) data – using the figures re-based specifically for Sunderland.

7.3 The Council has developed policies relating to the construction standards and environmental performance of new buildings. The current policy requirement is that homes are built to the basic Building Regulation Part L 2010 Standards plus Code to Sustainable Homes Level 4 although this is now subject to a modification whereby construction will be to the enhanced standards included within the national standards. From April 2008, the Code's Level 3 has been a requirement for all homes commissioned by housing associations but would not necessarily be the case for affordable homes built by developers for disposal to a housing association, unless grant was made available from the Homes and Communities Agency.

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

Regulations, we initially assumed a minimum standard of full CfSH Level 4 drawing on the costs information from *Cost of building to the Code for Sustainable Homes, Updated cost review. CLG (Aug 2011)*. At that time it was suggested that BCIS prices be increased by 6% to reflect the requirement to build to CfSH Level 4. The national policies in relation to climate change and overall national minimum building standards have been clarified and not all the requirements of CfSH Level 4 will become mandatory (and are not a requirement of the Local Plan). The costs assumptions set out in the previous paragraph are likely to overstate the expected actual costs.

- 7.5 Based on the best currently available information, the costs of building to the now clarified, enhanced building standards is estimated to be between 1% and 2% of the BCIS costs. The BCIS plus 6% assumption therefore overstates the costs in this regard.
- 7.6 In this viability assessment, we have used the median BCIS costs increased by 1.5% to reflect the increased environmental standards.
- 7.7 This approach has been discussed with the key developers, one of whom suggested the use of £740/m<sup>2</sup> as a base cost. This is somewhat below the assumption used which ranges from £806/m<sup>2</sup> to £903/m<sup>2</sup>. We have not adjusted the costs down in this regard, this illustrates the cautions approach taken.

#### *Construction costs: affordable dwellings*

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

#### *Other normal development costs*

- 7.9 In addition to the BCIS £/m<sup>2</sup> build cost figures described above, allowance needs to be made for a range of infrastructure costs (roads, drainage and services within the site, parking, footpaths, landscaping and other external costs), off-site costs for drainage and other services and so on. Many of these items will depend on individual site circumstances and can only properly be estimated following a detailed assessment of each site. This is not practical within this broad brush study and the approach taken is in line with the NPPF Practice Guidance and the Harman Guidance.
- 7.10 Nevertheless, it is possible to generalise. Drawing on experience and the comments of stakeholders it is possible to determine an allowance related to total build costs. This is normally lower for higher density than for lower density schemes since there is a smaller area of external works, and services can be used more efficiently. Large greenfield sites would also be more likely to require substantial expenditure on bringing mains services to the site.

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

*Abnormal development costs*

7.12 On the whole the modelled sites are greenfield sites. We believe that the principle abnormal costs relate to the infrastructure costs (including highways). Allowance has been made in the s106 / infrastructure costs set out below.

*Fees*

7.13 For residential development we have assumed professional fees amount to 10% of build costs in each case. This is made up as follows and includes the various assessments and appraisals that the Council requires under its various adopted Core Strategy policies:

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

7.14 A suggestion was made that the fees should be increased to reflect the site's topography. We have not made a further adjustment in this regard as, when considered as a whole, the characteristics of the site are within the current norms.

*Contingencies*

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

*S106 Contributions and the costs of infrastructure*

7.16 For many years Sunderland City Council has sought payments from developers to mitigate the impact of the development through improvements to the local infrastructure. The Council has a strategy for collecting payments from developers.

7.17 In due course the Council may introduce CIL. It is inevitable that the provisions in CIL regulation 122 that restrict the scope of CIL and CIL Regulation 123 that restrict the pooling of s106 contributions from multiple sites from April 2014 this will alter the current practice – although not necessarily the total quantum of contribution sought by the Council.

7.18 In this study it is important that the costs of mitigation are reflected in the analysis.

7.19 We have incorporated the following costs (as advised by ARUP) into the financial appraisals.

**Table 7.1 Site Infrastructure Costs**

14.1 Costs and Funding Overview									
Infrastructure	Total Costs	Funding Secured by 106 Agreements	Other Potential Funding	Total Shortfall	Cost Per Dwelling	South Ryhope	North of Burdon Lane	Cherry Knowle	Chapelgarth
						450	955	770	650
<b>Education</b>									
Primary Schools	£7,844,428	£0	£0	£7,844,428	£2,484.00	£1,117,800	£2,372,220	£1,912,680	£1,614,600
<b>Total</b>	<b>£7,844,428</b>	<b>£0</b>	<b>£0</b>	<b>£7,844,428</b>	<b>£2,484</b>	<b>£1,117,800</b>	<b>£2,372,220</b>	<b>£1,912,680</b>	<b>£1,614,600</b>
<b>Green Infrastructure and Open Space</b>									
Biodiversity	£938,500	£0	£0	£938,500	C -£315 NBL - £216 CK - £308 SR - £589	£265,050	£206,280	£237,160	£204,750
HRA Mitigation	£5,055,428.00	£0	£0	£5,055,428.00	£1,789.53	£805,289.42	£1,709,003.09	£1,377,939.67	£1,163,195.82
Play Space and Pitch Provision	£2,385,664	£0	£0	£2,385,664	£844.48	£380,017.27	£806,481	£650,252	£548,914
Allotments	£168,000	£0	£0	£168,000	£59.47	£26,761.06	£56,792.92	£45,791.15	£38,654.87
<b>Total</b>	<b>£8,547,592</b>	<b>£0</b>	<b>£0</b>	<b>£8,547,592</b>	<b>£2,693</b>	<b>£1,477,118</b>	<b>£2,778,557</b>	<b>£2,311,143</b>	<b>£1,955,515</b>
<b>Utilities</b>									
Renewable Energy	£11,350,000	£0	£0	£11,350,000	£4,017.70	£1,807,965	£3,836,903	£3,093,628	£2,611,504
<b>Total</b>	<b>£11,350,000.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£11,350,000.00</b>	<b>£4,017.70</b>	<b>£1,807,964.60</b>	<b>£3,836,902.65</b>	<b>£3,093,628.32</b>	<b>£2,611,504.42</b>
<b>Transport</b>									
Bus- without RDLR	£1,058,000	£0	£0	£1,058,000.00	£374.51	£168,530.97	£357,660.18	£288,375.22	£243,433.63
Bus with RDLR	£640,000	£0	£0	£640,000.00	£226.55	£101,946.90	£216,353.98	£174,442.48	£147,256.64
Ryhope to Doxford Link Road	£14,500,000.00	£290,113	£9,250,000	£4,960,000.00	£1,847.00	£831,150	£1,763,885	£960,440	£1,200,550
<b>Total without RDLR</b>	<b>£1,058,000.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£1,058,000.00</b>	<b>£374.51</b>	<b>£168,530.97</b>	<b>£357,660.18</b>	<b>£288,375.22</b>	<b>£243,433.63</b>
<b>Total with RDLR</b>	<b>£15,140,000</b>	<b>£290,113</b>	<b>£9,250,000</b>	<b>£5,600,000</b>	<b>£2,074</b>	<b>£933,097</b>	<b>£1,980,239</b>	<b>£1,134,882</b>	<b>£1,347,807</b>
Grand Total without RDLR	£28,800,020	£0	£0	£28,800,020	£9,570	£4,571,413	£9,345,340	£7,605,826	£6,425,053
<b>Grand Total with RDLR</b>	<b>£42,882,020</b>	<b>£290,113</b>	<b>£9,250,000</b>	<b>£33,342,020</b>	<b>£11,269</b>	<b>£5,335,979</b>	<b>£10,967,919</b>	<b>£8,452,333</b>	<b>£7,529,426</b>

7.20 The figures are based on the following assumptions:

*Education*

7.21 Allowance is made for the cost for the extension of 2 existing primary schools and the construction of a new 1.5 form school. Contributions will also be sought from two non SSGA schemes.

*Green Infrastructure and Open Space*

7.22 Allowance is made for the cost for biodiversity enhancements vary on a site by site basis and are based on the best available information.

**SANGS**

7.23 The cost includes the maintenance of multipurpose green infrastructure corridors for 20 years. Developers will be expected to include SANGS on site, therefore no contributions will be sought for implementation. Sites which are unable to do so will be requested to contribute an amount equal to the estimated cost of onsite implementation. Contributions are based on the maintenance of SANGS per hectare which totals 42.75ha in the SSGA.

7.24 South Ryhope is not required to provide SANGS.

*Play Space and Pitch Provision*

7.25 Play facilities will be implemented by the developer and then adopted by the Local Authority. Commuted sums will be sought through the S106 process for their maintenance. Contributions also sought towards a wheeled play facility and its maintenance. It has been calculated that

one multipurpose pitch and one 3G artificial turf pitch, flood lit pitches and changing facilities will be required.

#### *Allotments*

- 7.26 Cost for SSGA is 42 allotment plots at 15 plots per 1,000 households.

#### *Utilities*

- 7.27 The Renewable Energy Feasibility Study suggests the fee to developers for the implementation of a District Heating Scheme to be in the region of £4,000 per dwelling, plus construction of 1-2 shells for the energy centre to be housed in (£50,000).

#### *Transport*

- 7.28 Costs include allowance for bus services funded until the revenue levels ensure sustainability of the service (10 years). Any revenue would be offset. Costs are calculated based on with / without the development of the Ryhope to Doxford Link Road (RDLR) with costs decreasing at intervals to nil cost at 10 years. The analysis in this report is on a with the RDLR.
- 7.29 Costs for the RDLR based on a review of SCC modelling costs for unbuilt/ unfunded sections of the RDLR. Phase 1 of Cherry Knowle is not required to contribute due to previous contributions. Other contributions are those sections that are either to be funded as part of the development or have already been built. Bellway scheme of 114 dwellings has also contributed.
- 7.30 In this study we have incorporated the site specific s106 costs into the appraisals as highlighted in yellow. These are the costs that would meet the post April 2015 restrictions on pooling s106 contributions. These sites do put significant further pressure on the infrastructure and improvements will be required that will not be sufficiently site specific to pass the tests for payments to be required through s106. These items will be funded through a range of other sources including CIL.

### **Financial and Other Appraisal Assumptions**

#### *VAT*

- 7.31 For simplicity it has been assumed throughout, that either VAT does not arise, or that it can be recovered in full.
- 7.32 It was suggested by one developer that SDLT is payable on any VAT charged on the site costs – the effect being to increase the amount on which this duty is paid by 20%. This is the case. We have not made an adjustment in this regard as we believe that this will be reflected in any land value. The consequence of this would be to increase the rate paid from 3% to 3.6% or from 4% to 4.8% depending on the site value.

### *Interest rate*

- 7.33 Our appraisals assume 6% pa for total debit balances, we have made no allowance for any equity provided by the developer. This does not reflect the current working of the market nor the actual business models used by developers. In most cases the smaller (non-plc) developers are required to provide between 30% and 40% of the funds themselves, from their own resources, so as to reduce the risk to which the lender is exposed. The larger plc developers tend to be funded through longer term rolling arrangements across multiple sites.
- 7.34 The 6% assumption may seem high given the very low base rate figure (0.5% December 2014). Developers that have a strong balance sheet, and good track record, can undoubtedly borrow less expensively than this, but this reflects banks' view of risk for housing developers in the present situation. In the residential appraisals we have prepared a simple cashflow to calculate interest.
- 7.35 The relatively high assumption of the 6% interest rate, and the assumption that interest is chargeable on all the funds employed, has the effect of overstating the total cost of interest as most developers are required to put some equity into most projects. In this study a cautious approach is being taken, so we believe this is a sound assumption.
- 7.36 One developer suggested a higher rate should be used. Having reviewed the Annual Reports for several housebuilders, we do not believe this to be appropriate.

### *Developers' profit*

- 7.37 An allowance needs to be made for developers profit / return and to reflect the risk of development. Neither the NPPF, nor the CIL Regulations, nor the CIL Guidance provide useful guidance in this regard so, in reaching this decision, we have considered the RICS's *'Financial Viability in Planning'* (August 2012), the Harman Guidance *Viability Testing Local Plans, Advice for planning practitioners* (June 2012), and referred to the HCA's Economic Appraisal Tool. None of these documents are prescriptive, but they do set out some different approaches.
- 7.38 RICS's *'Financial Viability in Planning'* (August 2012) says:

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

- 7.39 The Harman Guidance says:

### ***Return on development and overhead***

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

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

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

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

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

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

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

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

***Open Market Housing***

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

***Affordable Housing***

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

- 7.41 It is unfortunate that the above are not consistent, but it is clear that the purpose of including a developers' profit figure is not to mirror a particular business model, but to reflect the risk a developer is taking in buying a piece of land, and then expending the costs of construction before selling the property. The use of developers' profit in the context of area wide viability testing of the type required by the NPPF and CIL Regulation 14, is to reflect that level of risk.
- 7.42 At the January 2013 appeal APP/X0360/A/12/2179141 (Land at The Manor, Shinfield, Reading RG2 9BX) the inspector considered this specifically saying:

***Developer's profit***

43. The parties were agreed that costs<sup>19</sup> should be assessed at 25% of costs or 20% of gross development value (GDV). The parties disagreed in respect of the profit required in respect of the affordable housing element of the development with the Council suggesting that the figure for this should be reduced to 6%. This does not greatly

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<sup>19</sup> i.e. the developers profit / competitive return.



affect the appellants' costs, as the affordable housing element is 2%, but it does impact rather more upon the Council's calculations.

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

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

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

- a. To set a different rate of return on each site to reflect the risk associated with the development of that site. This would result in a lower rate on the smaller and simpler sites – such as the greenfield sites, and a higher rate on the brownfield sites.
- b. To set a rate for the different types of unit produced – say 20% for market housing and 6% for affordable housing, as suggested by the HCA.
- c. To set the rate relative to costs – and thus reflect risks of development.
- d. To set the rate relative to the gross development value as suggested by several of the stakeholders following the consultation event.

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

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

by the professional team, whether or not the directors will provide personal guarantees, and the number of pre-sold units.

- 7.47 This is a high level study where it is necessary and proportionate to take a relatively simplistic approach, so, rather than apply a differential return (either site by site or split between market and affordable housing) it is appropriate to make some broad assumptions.
- 7.48 We have calculated the profit to reflect risk from development as 20% of Gross Development Value (GDV). This assumption should be considered in line with the assumption about interest rates in the previous section, where a cautious approach was taken with a relatively high interest rate, and the assumption that interest is charged on the whole of the development cost. Further consideration should be given to the contingency sum in the appraisals which is also reflective of the risks.

#### *Voids*

- 7.49 On a scheme comprising mainly individual houses, one would normally assume only a nominal void period as the housing would not be progressed if there was no demand. In the case of apartments in blocks this flexibility is reduced. Whilst these may provide scope for early marketing, the ability to tailor construction pace to market demand is more limited.
- 7.50 For the purpose of the present study, a three month void period is assumed for all residential and non-residential developments. We have given careful consideration to this assumption in connection to the commercial developments. There is very little speculative commercial development taking place so we believe that this is the appropriate assumption to make.

#### *Phasing and timetable*

- 7.51 A pre-construction period of six months is assumed for all of the sites. Each dwelling is assumed to be built over a nine month period. The phasing programme for an individual site will reflect market take-up and would, in practice, be carefully estimated taking into account the site characteristics and, in particular, the size and the expected level of market demand. We have developed a suite of modelled assumptions to reflect site size and development type.
- 7.52 The rate of delivery will be an important factor when the Council is considering the release of sites so as to manage the delivery of housing and infrastructure. We have considered two aspects the first is the number of outlets that a development site may have and secondly the number of units that an outlet by deliver drawing on the information the Council.
- 7.53 We would normally assume a maximum, per outlet, delivery rate of 35 market units per year which would equate to under 40 per outlet per year. The assumption would be in line with recent research published by Savills:

*Across the top eight listed housebuilders, the average sales rate per outlet per annum in 2012 stood at 28. This figure rose to 33 for those issuing trading statements for the year to June 2013. The outlook remains positive; the June Home Builders Federation survey presented the most optimistic assessment of future sales since January 2007.*

*Savills, Market in Minutes, UK Residential Development Land August 2013*

- 7.54 In this study we have assumed the rates of delivery as supplied to us by the Council. These assume delivery from 2015. This will be challenging as we understand that the vast majority of the area is not subject to a current planning consent.

### **Site Acquisition and Disposal Costs**

#### *Site holding costs and receipts*

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

#### *Acquisition costs*

- 7.56 We have taken a simplistic approach and assumed an allowance 1.5% for acquisition agents' and legal fees. Stamp duty is calculated at the prevailing rates.
- 7.57 It has been suggested that at least one of the owners on the site is seeking to include the sales costs (2% agents and 1% legal) in the land price. Overall this will not result in the developer paying more for the land as it would be taken into account in the amount paid.

#### *Disposal costs*

- 7.58 For the market and the affordable housing, sales and promotion and legal fees were initially assumed to amount to some 3.5% of receipts. For disposals of affordable housing, these figures can be reduced significantly depending on the category, so in fact the marketing and disposal of the affordable element is probably less expensive than this.
- 7.59 Following discussions with the developers we have adjusted this assumption up to 4% to reflect the potential challenges in marketing the site and the relatively long build out periods.

## **8. Local Plan Requirements**

- 8.1 The purpose of this study is to assess ability of the South Sunderland Growth Area to bear the infrastructure costs that are required to support the development. In this section we have reviewed development management policies in the *Sunderland Local Plan: Core Strategy and Development Management Policies, Draft Revised Preferred Options, (August 2013)*. It is important to note that this document is a preferred options paper and not an adopted policy document. We have discussed the latest thinking with the Council and reflected that in this study.
- 8.2 **CS4.3 New Housing** includes the provision of for 10% affordable housing on sites such as the one assessed. In addition there is a proviso to encourage the provision of executive housing. The policy also encourages the development of older peoples housing, and housing that would meet the long term needs of this group. We have not incorporated this into the modelling as it is not a policy requirement.

- 8.3 **CS6.1 to CS6.5 Connectivity** set out a range of traffic and transport initiatives. As set out in section 7 above (as advised by ARUP) we have incorporated the anticipated costs of these into our appraisals.
- 8.4 **CS7.2 to CS7.4 Built Environment** sets out an aspirational framework but does not impose increased environmental standards on development. The modelling in this report is based on Building Regulations as set out towards the beginning of section 7 above. The policies seek high quality openspace within projects. This is reflected in the modelling.
- 8.5 **CS8 Renewable Energies** does not impose specific requirements on new residential development. It does however set out various aspirations. In this study we have run a scenario where we have increased the build costs by £4,000 per unit to cover the initial costs of district heating schemes (included in the ARUP figures).
- 8.6 **CS11 Developer Contributions** is a broad policy to enable the Council to seek contributions to ensure that the impact of development is mitigated and that appropriate infrastructure is provided. As set out in section 7, in this study we have modelled the full costs of the infrastructure and mitigation measures, but also a range of costs to enable the Council to make informed judgements.

## 9. Modelled Sites

- 9.1 In the previous sections we have set out the general assumptions to be inputted into the development appraisals. In this section we have set out the modelling. We stress that this is a high level and broad brush study that is seeking to capture the generality rather than the specific. The purpose is to establish whether the South Sunderland Growth Area and the sites within it are generally viable and able to bear the costs of the required infrastructure and mitigation measures.
- 9.2 In this study we have modelled the following sites. In the following table it is important to note that the Gross Area is the whole site area that is proposed to be allocated. These have been largely based on natural boundaries on the ground. The net area is calculated at about 35units/ha (25units/ha on sites that include Executive Units) so to allow for openspace and to ensure sufficient land to create a high quality environment.

<b>Table 9.1 SSGA Sub-Sites</b>							
		Units	Area Ha		Density Units/ha		Density
			Gross	Net	Gross	Net	m2/ha
1	Chapel Garth	650	49.93	22.00	13.02	29.55	3,808
2	North of Burdon Lane	955	88.61	27.28	10.78	35.01	3,737
3	Cherry Knowle	770	37.48	30.80	20.54	25.00	3,083
4	South Ryhope	450	22.50	12.86	20.00	34.99	3,641

Source: HDH (November 2014)

9.3 At this stage it is relevant to note that several of these sites have significantly higher levels of affordable that would be normally found on larger urban extensions.

<b>Table 9.2 SSGA Sub-Sites. Percentage of open space</b>				
		Gross	Net	% Open Space
1	Chapel Garth	49.93	22	56%
2	North of Burdon Lane	88.61	27.28	69%
3	Cherry Knowle	37.48	30.8	18%
4	South Ryhope	22.5	12.86	43%
		<b>198.52</b>	<b>92.94</b>	<b>53%</b>

Source: HDH (December 2014)

9.4 This is important as when it comes to considering the viability of the sites and the viability thresholds.

### **Modelled Residential Development Sites**

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

9.6 The typology uses as a base or benchmark a typical post-PPG3/PPS3 built form which would provide development at around 3,550 m<sup>2</sup>/ha on a substantial site, or sensibly shaped smaller site. A representative housing density might be 40-45 dwellings per ha. This became a common development format before the 2007 downturn. It provides for a majority of houses but with perhaps 15-25% flats, in a mixture of two storey and two and a half to three storey form, with some rectangular emphasis to the layout. This is may well be representative over the plan-period however in the current market is an appreciably more intensive built form than most developers are likely to consider. In this study we have modelled the sites at 35units/net ha.

9.7 There would, of course be some schemes of appreciably higher density development providing largely or wholly apartments, in blocks of three storeys or higher, with development densities of 6,900 m<sup>2</sup>/ha and dwelling densities of 100 units/ha upwards; and schemes of lower density, in sensitive rural or rural edge situations. In pressured housing locations like London and the adjoining areas, of course, many or most of the sites will be developed at development densities higher than the 3,550 m<sup>2</sup>/ha benchmark. In the SSGA, a most development taking

place is at a comparatively low density, with most houses on two storeys and two and a half storeys, and relatively few flatted elements.

- 9.8 The Council has provided us with the preferred overall mix of units across the whole site. The modelling is based on these mixes. In accordance with table 6.8 of Councils Strategic Housing Market Assessment we have assumed that the majority of affordable units are 1 and two bedroom units.

<b>Table 9.3 Mix of affordable housing</b>		
<b>Requirement No.</b>	<b>households</b>	<b>% of households</b>
1/2 Bedrooms	2144	76.1
3+ bedrooms	467	16.6
Unspecified	208	7.4
<b>Total</b>	<b>2819</b>	<b>100.0</b>

Source: Table 6.8 Sunderland 2012 Strategic Housing Market Assessment, Draft Final Report, March 2013 (arc4)

- 9.9 The sites have been modelled as set out in Table 9.1.

## **10. Appraisal Results**

- 10.1 At the start of this section it is important to stress that the results of the appraisals do not, in themselves, determine the Council's policies or set CIL. The present study is designed to test the deliverability of development in the SGGA and most appropriate strategy for seeking infrastructure contributions from the development industry. The results of this study are one of a number of factors that the Council will consider, including the need for infrastructure, other available evidence, such as the Council's track record in delivering affordable housing and collecting payments under s106, and, importantly, the results of the consultation process with developers. The purpose of the appraisals is to provide an indication of the viability in different areas under different scenarios. In due course, the Council will have to take a view as to whether or not to proceed with the Growth Area in its current form and whether or not to proceed with CIL.
- 10.2 The appraisals use the Residual Valuation approach – that is, they are designed to assess the value of the site after taking into account the costs of development, the likely income from sales and/or rents and an appropriate amount of developers' profit. The payment would represent the sum paid in a single tranche on the acquisition of a site. In order for the proposed development to be described as viable, it is necessary for this value to exceed the value from an alternative use. We have discussed this in detail in section 6.
- 10.3 In order to assist the Council and to inform the consultation process, we have run several sets of appraisals. The appraisals' main output is the Residual Value. The Residual Value is calculated using the formula set out in Section 2 above. Additionally the appraisals also derive the Additional Profit to assist with setting CIL, as set out in section 3.



- 10.4 The initial appraisals are based on the assumptions provided in the previous sections of this report, including the 10% affordable housing requirement set out in the Council's policies. We have run further sets of appraisals assuming no provision of affordable housing or developer contributions and then higher levels of affordable housing and developer contribution, as this will be useful in helping the Council to understand the cumulative impact of policy requirements.
- 10.5 Development appraisals are sensitive to changes in price so appraisals have been run with a various changes in the cost of construction and an increase and decrease in prices. We have then considered a number of different levels informed by our discussion with the Council.
- 10.6 As set out above, for each development type we have calculated the Residual Value. In the tables in this section we have colour coded the results using a simple traffic light system:
- a. **Green Viable** – where the Residual Value per hectare exceeds the indicative Viability Threshold Value per hectare (being the Existing Use Value plus the appropriate uplift to provide a competitive return for the landowner).
  - b. **Amber Marginal** – where the Residual Value per hectare exceeds the Existing Use Value or Alternative Use Value, but not Viability Threshold Value per hectare. These sites should not be considered as viable when measured against the test set out – however, depending on the nature of the site and the owner, they may come forward.
  - c. **Red Non-viable** – where the Residual Value does not exceed the Existing Use Value or Alternative Use Value.
- 10.7 The results are set out and presented for each site and per gross hectare to allow comparison between sites.
- 10.8 It is important to note that a report of this type applies relatively simple assumptions that are broadly reflective of an area to make an assessment of viability. The fact that a site is shown as viable does not necessarily mean that it will come forward and vice versa. An important part of any final consideration of viability will be relating the results of this study to what is actually happening on the ground in terms of development and what planning applications are being determined – and on what basis.

### **Financial appraisal approach and assumptions**

- 10.9 On the basis of the assumptions set out in the earlier sections, we prepared financial appraisals for each of the modelled residential sites using a bespoke spreadsheet-based financial analysis package. We produced financial appraisals based on the build costs, abnormal costs, and infrastructure costs and financial assumptions for the different options. The detailed appraisal base results, for the affordable housing targets, are set out as follows.
- a. Chapel Garth – **Appendix 2**
  - b. North of Burdon Lane – **Appendix 3**

- c. Cherry Knowle – **Appendix 4**
- d. South Ryhope – **Appendix 5.**

*Base Appraisals – full current policy requirements*

10.10 These initial appraisals are based on the base options:

- a. Affordable Housing                      7.5% Affordable Rented and 2.5% Intermediate.
- b. Environmental Standards            Enhanced Building Regulations (Part L) (BCIS +1.5%),
- c. CIL and s106                              As advised by ARUP

<b>Table 10.1 Infrastructure Costs</b>			
	<b>Units</b>	<b>Total</b>	<b>/unit</b>
Chapel Garth	650	£7,529,426	£11,584
North of Burdon Lane	955	£10,967,919	£11,485
Cherry Knowle	770	£8,452,333	£10,977
South Ryhope	450	£5,335,979	£11,858

Source: Table 7.1 above

- d. Developers' Return                      20% on GDV

<b>Table 10.2 Residual Value, Full Policy Requirements</b>						
	Area (ha)		Units	Residual Value		
	Gross	Net		Gross ha	Net ha	Site
Chapel Garth	49.93	22.00	650	688,899	1,563,488	34,396,730
North of Burdon Lane	88.61	27.28	955	349,592	1,135,532	30,977,326
Cherry Knowle	37.48	30.80	770	1,047,051	1,274,139	39,243,490
South Ryhope	22.50	12.86	450	619,300	1,083,535	13,934,259
	<b>198.52</b>	<b>92.94</b>	<b>2825</b>	<b>2,704,843</b>	<b>5,056,694</b>	<b>118,551,804</b>

Source: SSGA IDS Viability Assessment (HDH 2014)

10.11 All of the modelled sites, generate a positive a substantial Residual Value that is in excess of £1,000,000 per net developable hectare. This should give the Council confidence that generally these sites are likely to be deliverable, although this does not give an indication of viability on its own. In the following table we have compared the Residual Value with the Viability Threshold (see Section 6).



<b>Table 10.3 Residual Value compared to Viability Thresholds, Full Policy Requirements</b>			
	Alternative Use Value	Viability Threshold	Residual Value
	£/ha	£/ha	£/ha (Gross)
Chapel Garth	20,000	274,000	688,899
North of Burdon Lane	20,000	274,000	349,592
Cherry Knowle	250,000	300,000	1,047,051
South Ryhope	20,000	274,000	619,300

Source: SSGA IDS Viability Assessment (HDH 2014)

10.12 On this basis all the sub areas can be seen to be able to bear the 10% affordable housing and the developer contributions of about £12,000 per unit as set out in Table 10.1 above.

10.13 The Burdon Lane figure of just under £350,000 is substantially lower than the other sites. It is important to note that this site is substantially larger than the other sites with nearly 70% open space. It is therefore more appropriate for this to be considered on a net basis.

#### **Level of Developer Contributions and Affordable Housing Targets.**

10.14 The above figures are based on the assumption that each site bears all of their own infrastructure costs and the 10% affordable housing. The requirements for infrastructure are wider than this. In the following tables we have explored the impact of CIL being charged IN ADDITION to the infrastructure costs. We have also explored the total levels of developer contributions.

<b>Table 10.4 Infrastructure Costs PLUS CIL</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
			£0	£20	£40	£60	£80	£100
Chapel Garth	20,000	274,000	688,899	666,216	643,533	620,850	597,916	574,812
North of Burdon Lane	20,000	274,000	349,592	333,508	317,424	301,340	285,256	269,172
Cherry Knowle	250,000	300,000	1,047,051	1,012,403	977,754	942,991	907,719	872,447
South Ryhope	20,000	274,000	619,300	589,986	560,671	531,357	502,042	472,728

Source: SSGA IDS Viability Assessment (HDH 2014)

<b>Table 10.5 Total Infrastructure Contribution £/unit</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	797,448	778,706	759,965	741,223	722,481	703,740
North of Burdon Lane	20,000	274,000	440,946	425,086	409,225	393,365	377,504	361,598
Cherry Knowle	250,000	300,000	1,210,890	1,181,039	1,151,188	1,121,337	1,091,486	1,061,635
South Ryhope	20,000	274,000	797,683	767,923	738,163	708,068	677,760	647,452
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000	684,998	666,257	647,515	628,774	610,001	591,220
North of Burdon Lane	20,000	274,000	345,425	329,252	313,079	296,907	280,734	264,561
Cherry Knowle	250,000	300,000	1,031,783	1,001,932	972,081	942,100	911,711	881,323
South Ryhope	20,000	274,000	617,144	586,836	556,529	526,221	495,913	465,605
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000	590,912	571,822	552,733	533,644	514,554	495,465
North of Burdon Lane	20,000	274,000	264,561	248,388	232,215	216,042	199,870	183,697
Cherry Knowle	250,000	300,000	881,323	850,935	820,547	790,158	759,770	729,382
South Ryhope	20,000	274,000	465,605	435,297	404,489	373,474	342,459	311,444

Source: SSGA IDS Viability Assessment (HDH 2014)

10.15 The figures in the above table are on a gross area basis. It can be seen that the residual value per gross hectare falls substantially. Having said this, as set out in the following table, when considered on a net area basis, even with developer contributions of £30,000/unit (which is nearly three times the anticipated cost) all the sites achieve a residual value of £500,000/ net ha.

<b>Table 10.6 Residual Value, 10% Affordable Housing and Developer Contributions of £30,000/unit</b>						
	Area (ha)		Units	Residual Value		Site
	Gross	Net		Gross ha	Net ha	
Chapel Garth	49.93	22.00	650	514,554	1,167,805	25,691,700
North of Burdon Lane	88.61	27.28	955	199,870	649,210	17,710,442
Cherry Knowle	37.48	30.80	770	759,770	924,551	28,476,183
South Ryhope	22.50	12.86	450	342,459	599,170	7,705,323
	<b>198.52</b>	<b>92.94</b>	<b>2825</b>	<b>1,816,653</b>	<b>3,340,735</b>	<b>79,583,648</b>

Source: SSGA IDS Viability Assessment (HDH 2014)

### Impact of Price and Cost Change

10.16 It is clear from the work done so far and the conversations with the developers and the Council that there is a degree of uncertainty around the project. This is in two principal areas. The



first being the costs of the infrastructure which continues to be investigated. The second is in relation to the prices achievable. The prices used are based, to a large extent, a high quality scheme that is designed to stand apart from ‘bog standard’ estate housing – perhaps through following the Garden Suburb principles.

10.17 In the following sections tables we have set out the results for further sets of appraisals for the four elements of the SSGA with a range of residential prices and infrastructure costs.

<b>Table 10.7 Residential Value £1,900/m<sup>2</sup> &amp; infrastructure contribution £/unit</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	197,855	178,336	158,522	138,482	118,441	98,401
North of Burdon Lane	20,000	274,000	148,600	132,024	115,448	98,873	82,297	65,721
Cherry Knowle	250,000	300,000	362,909	331,863	300,748	268,910	237,071	205,232
South Ryhope	20,000	274,000	328,475	297,460	266,445	235,430	204,415	173,400
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000		78,360	57,759	37,097	16,591	-4,567
North of Burdon Lane	20,000	274,000		48,749	31,670	14,591	-2,610	-20,952
Cherry Knowle	250,000	300,000		173,393	140,818	108,039	75,260	42,140
South Ryhope	20,000	274,000		141,649	109,752	77,854	45,957	13,514
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000		-27,015	-49,462	-72,448	-95,777	-119,520
North of Burdon Lane	20,000	274,000		-39,516	-58,564	-77,865	-97,947	-118,489
Cherry Knowle	250,000	300,000		8,418	-26,883	-63,031	-99,924	-136,883
South Ryhope	20,000	274,000		-20,685	-55,791	-91,701	-128,230	-165,651

Source: SSGA IDS Viability Assessment (HDH 2014)

<b>Table 10.8 Residential Value £2,000/m<sup>2</sup> &amp; infrastructure contribution £/unit</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	279,139	259,620	240,101	220,581	201,062	181,542
North of Burdon Lane	20,000	274,000	204,175	188,003	171,830	155,464	138,889	122,313
Cherry Knowle	250,000	300,000	486,292	455,245	424,199	393,152	362,105	331,059
South Ryhope	20,000	274,000	429,225	398,917	368,609	337,825	306,810	275,795
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000	161,573	141,532	121,492	101,451	81,411	
North of Burdon Lane	20,000	274,000	105,737	89,162	72,586	55,717	38,638	
Cherry Knowle	250,000	300,000	299,504	267,665	235,826	203,987	172,041	
South Ryhope	20,000	274,000	244,780	213,765	182,750	150,999	119,102	
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000	60,773	40,111	19,634	-1,303	-23,750	
North of Burdon Lane	20,000	274,000	21,559	4,566	-13,371	-31,935	-50,600	
Cherry Knowle	250,000	300,000	139,263	106,484	73,705	40,423	6,670	
South Ryhope	20,000	274,000	87,204	55,307	23,060	-10,630	-45,292	

Source: SSGA IDS Viability Assessment (HDH 2014)

<b>Table 10.9 Residential Value £2,100/m<sup>2</sup> &amp; infrastructure contribution £/unit</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	359,465	340,376	321,286	301,865	282,346	262,826
North of Burdon Lane	20,000	274,000	259,591	243,418	227,245	211,072	194,900	178,727
Cherry Knowle	250,000	300,000	607,856	577,468	547,079	516,535	485,488	454,442
South Ryhope	20,000	274,000	529,705	499,397	469,089	438,781	408,473	378,165
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000	243,307	223,787	204,268	184,664	164,624	
North of Burdon Lane	20,000	274,000	162,329	145,753	129,178	112,602	96,026	
Cherry Knowle	250,000	300,000	423,395	392,348	361,302	330,098	298,259	
South Ryhope	20,000	274,000	347,175	316,160	285,145	254,130	223,115	
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000	144,583	124,543	104,502	84,449	63,787	
North of Burdon Lane	20,000	274,000	79,450	62,686	45,607	28,528	11,449	
Cherry Knowle	250,000	300,000	266,420	234,581	202,743	170,486	137,708	
South Ryhope	20,000	274,000	192,100	160,350	128,452	96,555	64,657	

Source: SSGA IDS Viability Assessment (HDH 2014)

**Table 10.10 Residential Value £2,200/m<sup>2</sup> & infrastructure contribution £/unit**  
Residual Value/Gross ha

	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	439,290	420,200	401,111	382,022	362,932	343,843
North of Burdon Lane	20,000	274,000	315,006	298,834	282,661	266,488	250,315	234,142
Cherry Knowle	250,000	300,000	729,161	698,773	668,384	637,996	607,608	577,220
South Ryhope	20,000	274,000	630,185	599,877	569,569	539,262	508,954	478,646
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000	324,591	305,071	285,552	266,033	246,513	
North of Burdon Lane	20,000	274,000	217,969	201,797	185,624	169,194	152,618	
Cherry Knowle	250,000	300,000	546,778	515,731	484,684	453,638	422,591	
South Ryhope	20,000	274,000	448,338	418,030	387,540	356,525	325,510	
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000	226,994	207,474	187,715	167,674	147,634	
North of Burdon Lane	20,000	274,000	136,042	119,466	102,891	86,315	69,654	
Cherry Knowle	250,000	300,000	391,545	360,498	328,853	297,014	265,176	
South Ryhope	20,000	274,000	294,495	263,480	232,465	201,451	169,700	

Source: SSGA IDS Viability Assessment (HDH 2014)

**Table 10.11 Residential Value £2,300/m<sup>2</sup> & infrastructure contribution £/unit**  
Residual Value/Gross ha

	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	519,114	500,025	480,936	461,846	442,757	423,667
North of Burdon Lane	20,000	274,000	369,924	354,064	338,076	321,903	305,731	289,558
Cherry Knowle	250,000	300,000	850,254	820,078	789,689	759,301	728,913	698,525
South Ryhope	20,000	274,000	730,210	700,358	670,050	639,742	609,434	579,126
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000	404,578	385,489	366,399	347,310	327,797	
North of Burdon Lane	20,000	274,000	273,385	257,212	241,039	224,866	208,694	
Cherry Knowle	250,000	300,000	668,136	637,748	607,360	576,971	545,974	
South Ryhope	20,000	274,000	548,818	518,510	488,202	457,894	427,586	
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000	308,278	288,758	269,239	249,719	230,200	
North of Burdon Lane	20,000	274,000	192,521	176,058	159,482	142,907	126,331	
Cherry Knowle	250,000	300,000	514,927	483,881	452,834	421,787	390,741	
South Ryhope	20,000	274,000	396,890	365,875	334,860	303,845	272,830	

Source: SSGA IDS Viability Assessment (HDH 2014)

<b>Table 10.12 Residential Value £2,400/m<sup>2</sup> &amp; infrastructure contribution £/unit</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	598,117	579,375	560,633	541,671	522,581	503,492
North of Burdon Lane	20,000	274,000	424,557	408,696	392,836	376,975	361,115	344,973
Cherry Knowle	250,000	300,000	970,067	940,216	910,365	880,514	850,218	819,830
South Ryhope	20,000	274,000	829,434	799,675	769,915	740,156	709,914	679,606
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000	484,403	465,313	446,224	427,134	408,045	
North of Burdon Lane	20,000	274,000	328,800	312,628	296,455	280,282	264,109	
Cherry Knowle	250,000	300,000	789,441	759,053	728,665	698,277	667,888	
South Ryhope	20,000	274,000	649,298	618,990	588,682	558,374	528,066	
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000	388,956	369,866	350,523	331,003	311,484	
North of Burdon Lane	20,000	274,000	247,936	231,763	215,591	199,418	182,923	
Cherry Knowle	250,000	300,000	637,500	607,112	576,217	545,170	514,124	
South Ryhope	20,000	274,000	497,758	467,450	437,143	406,240	375,225	

Source: SSGA IDS Viability Assessment (HDH 2014)

<b>Table 10.13 Residential Value £2,500/m<sup>2</sup> &amp; infrastructure contribution £/unit</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
<b>Developer Contribution</b>			£0	£2,000	£4,000	£6,000	£8,000	£10,000
Chapel Garth	20,000	274,000	676,904	658,162	639,420	620,679	601,937	583,196
North of Burdon Lane	20,000	274,000	479,189	463,328	447,468	431,607	415,747	399,886
Cherry Knowle	250,000	300,000	1,089,879	1,060,028	1,030,177	1,000,326	970,475	940,624
South Ryhope	20,000	274,000	928,659	898,899	869,140	839,380	809,621	779,861
<b>Developer Contribution</b>				£12,000	£14,000	£16,000	£18,000	£20,000
Chapel Garth	20,000	274,000	564,227	545,138	526,048	506,959	487,870	
North of Burdon Lane	20,000	274,000	384,026	368,043	351,870	335,697	319,525	
Cherry Knowle	250,000	300,000	910,746	880,358	849,970	819,582	789,193	
South Ryhope	20,000	274,000	749,778	719,470	689,162	658,854	628,547	
<b>Developer Contribution</b>				£22,000	£24,000	£26,000	£28,000	£30,000
Chapel Garth	20,000	274,000	468,780	449,691	430,602	411,512	392,423	
North of Burdon Lane	20,000	274,000	303,352	287,179	271,006	254,833	238,660	
Cherry Knowle	250,000	300,000	758,805	728,417	698,029	667,640	637,252	
South Ryhope	20,000	274,000	598,239	567,931	537,623	507,315	477,007	

Source: SSGA IDS Viability Assessment (HDH 2014)

- 10.18 The above tables illustrate the sensitivity to the prices achieved and the costs of infrastructure price change. The current best estimate of the infrastructure costs is between £10,000 and £12,000 per unit. For the schemes to be delivered, generally prices in excess of £2,100/m<sup>2</sup> will need to be achieved for market housing across the whole of the SSGA.
- 10.19 We take this opportunity to stress again that the results in themselves do not determine policy. We have discussed the consequences of these results in section 11.

## 11. Delivery of SSGA

- 11.1 This document sets out the methodology used, the key assumptions adopted, and the results, and has been prepared to assist the Council with the assessment of the viability of the South Sunderland Growth Area in the context of the emerging *Sunderland Local Plan: Core Strategy and Development Management Policies, Draft Revised Preferred Options, (August 2013)*.

### Cumulative Impact of Policies

- 11.2 In section 10 above, we set out the results of a range of appraisals considering the impact on viability of individual policies and the different levels of developer contributions that residential development can bear. The purpose of this analysis is to inform the plan-making process. As set out in Section 2 above, the NPPF introduced a requirement to assess the viability of the delivery of Local Plan and the impact on development of policies contained within it saying:

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

- 11.3 This needs to be considered in the fourth bullet point of paragraph 182 of the NPPF that requires that the Plan is *effective*.
- 11.4 The other purpose is in the context of CIL to assess the 'effects' on development viability of the imposition of CIL – Regulation 14 of the CIL Regulations says:

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

- 11.5 Table 10.2 above (copied below as Table 11.1) shows that, on the whole, when subject to the cumulative impact of the policies in the Plan (including 10% affordable housing), the development across the SSGA is deliverable.

<b>Table 11.1 Residual Value, Full Policy Requirements</b>						
	Area (ha)		Units	Residual Value		
	Gross	Net		Gross ha	Net ha	Site
Chapel Garth	49.93	22.00	650	688,899	1,563,488	34,396,730
North of Burdon Lane	88.61	27.28	955	349,592	1,135,532	30,977,326
Cherry Knowle	37.48	30.80	770	1,047,051	1,274,139	39,243,490
South Ryhope	22.50	12.86	450	619,300	1,083,535	13,934,259
	<b>198.52</b>	<b>92.94</b>	<b>2825</b>	<b>2,704,843</b>	<b>5,056,694</b>	<b>118,551,804</b>

Source: Table 10.2 SSGA IDS Viability Assessment (HDH 2014)

- 11.6 From this we would concluded that the cumulative impact of the Council's policies does not threaten the delivery of the SSGA as a whole and the Council can have confidence that the development will be forthcoming.
- 11.7 This conclusion is in the context of the Sunderland housing market. It is clear that there is a substantial amount of inexpensive property for sale in the area. We believe that the Council's approach of seeking executive housing and of including high levels of open space will give the SSGA the greatest chance of delivery. It will be important that the different areas are developed to the highest standard so as to offer something different (and more attractive) than the new build housing that is currently being developed in the wider area.

### Funding Infrastructure

- 11.8 The analysis above is based on the best current estimate of the site infrastructure costs (including £4,000/unit district heating costs) that could be reasonably requested from the developers bearing in mind a strict interpretation of CIL Regulations 122 and 123. It is well recognised by the Council, through the work being undertaken on their Infrastructure Delivery Plan (IDP), that there will be a wider impact that results not only from the SSGA but other development across Sunderland. It is unclear how this is to be funded however, in terms of the CIL Regulations the Council anticipates a significant Funding Gap.
- 11.9 Table 10.4 (copied below as Table 11.2) above sets out the Residual Values for the four phases of the SSGA, taking into account both the full infrastructure costs identified by ARUP and the 10% affordable housing. In addition the table shows the impact of CIL if charged on top of these costs.



<b>Table 10.4 Infrastructure Costs PLUS CIL</b>								
Residual Value/Gross ha								
	Alternative Use Value	Viability Threshold	Residual Value					
			£0	£20	£40	£60	£80	£100
Chapel Garth	20,000	274,000	688,899	666,216	643,533	620,850	597,916	574,812
North of Burdon Lane	20,000	274,000	349,592	333,508	317,424	301,340	285,256	269,172
Cherry Knowle	250,000	300,000	1,047,051	1,012,403	977,754	942,991	907,719	872,447
South Ryhope	20,000	274,000	619,300	589,986	560,671	531,357	502,042	472,728

Source: Table 10.4 SSGA IDS Viability Assessment (HDH 2014)

- 11.10 It can be seen that a substantial residual value is generated and based on this, high level analysis we would suggest that CIL could be charged at £40/m<sup>2</sup> or so, in addition to the developers meeting the site specific s106 costs. This may equate to about £4,000 on a typical 3 bedroom house.
- 11.11 Whilst we would have some concern about relying on the data and analysis set out above to set CIL it is our recommendation that the Council consider this further and investigate the scope to introduce CIL further. It is important to note that whilst viability evidence is an important aspect of this, a full understanding of the City Council’s wider infrastructure plan is also important, as is a comprehensive understanding of the other funding sources and what items of infrastructure can be delivered using s106 (bearing in mind CIL Regulations 122 and 123).



## Appendix 1 – JKPC Market Assessment

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### South Sunderland Growth Area: Valuation of new housing development

#### Introduction

The viability assessment of the South Sunderland Growth Area ('SSGA') infrastructure requires a development appraisal that includes an estimate of the sale revenue from the development of the new housing. This paper deals with the estimate of the price at which the new housing will be sold. The estimate is made in the present market with no provision for growth in prices or inflation.

#### Method

Research has been carried out to identify the housing development that is current within the geographical sub-region, the area from: to the south of the River Tyne in the north; to the east of the A1M, in the west; to the north of Seaham in the south; the coast to the east.

The sale prices of houses has been gathered and analysed to a rate per square foot on a gross internal area. To compare like with like the gross internal area is based on the definition provided by the Royal Institution of Chartered Surveyors, 'Code of Measuring Practice'.

The quality of the housing development in each of the areas of development in the SSGA has been assumed and the rate per square foot appropriate to the type and character is applied to the estimated houses to be developed in each of those areas in the SSGA.

#### Comparable Evidence

Annex A (below) attached provides a list and analysis of the housing developments within the geographical area.

The list has been provided to the housing developers and other stakeholders of the SSGA for comment. Where received, their response is also noted in Appendix 1.

Where the size and rate per square foot is blank, no information has been obtained. In the case of Persimmon rather than providing information they have agreed the values estimated for:

- 2 bedroom semi-detached - £130,000, equivalent to £142.23 per sq. ft. on GIA
- 3 bedroom semi-detached - £180,000, equivalent to £175.95 per sq. ft. on GIA; and
- 3 bedroom detached - £190,000, equivalent to £160.47 per sq. ft. on GIA.

## Valuation

The estimate of the sale price of houses within the SSGA development area is based on a good quality family house unit as if within a garden suburb style and character development.

The better quality property sales are evidenced by:

- Esh Developments at The Vanern, Newcastle Road, Sunderland which are spacious from 1,128 sq. ft. to 1,544 sq. ft. for 4 bedroom detached properties with varying rates of between £160.00 to £253.59 per sq. ft. sale price to GIA.
- Gentoo at Hawksley Rise, Cleadon which are spacious from 1,271 to 2,555 sq. ft. for 4 and 5 bedroom properties with varying rates of between £225.05 to £275.33 per sq. ft. sale price on GIA.
- Gentoo also at Shaw Wood Gate, Durham which are also spacious 4 bedroom properties from 1,612 to 2,076 sq. ft. with varying rates of between £211.95 to £238.83 per sq. ft. sale price on GIA.
- David Wilson Homes at Teal Farm, Barmston Road, Washington 2 to 5 bedroom houses of between 660 to 2,042 sq. ft. with varying rates of between £175.00 to £203.98 per sq. ft. on GIA.

The more average quality properties are evidenced by:

- Gentoo at Meadow View, Houghton le Spring and Beechbrooke, South Shields for 2 and 3 bedroom houses of 648 to 1,156 sq. ft. with varying rates of between £130.39 to £169.08 per sq. ft. sale price on GIA.
- Barratt at Barmston Road, Teal park Farm, Washington for 2 to 4 bedroom detached and semi-detached houses of between 800 and 1,221 sq. ft. with varying rates of between £130.51 to £231.57 per sq. ft. sale price on GIA.
- Glenrose at Middle Farm, Tunstall with 4 bedroom detached properties of between 1,275 and 1,700 sq. ft. selling for between £111.76 and £168.83 per sq. ft. on GIA.

In summary the table for house prices in general is in the order of:

Table Residential Values – Market Housing					
	Beds	m2	£/Unit	£/m <sup>2</sup>	£/ft <sup>2</sup>
Flat	1	45	65,000	1,444	134.15
	2	62	85,000	1,371	127.37
Terrace	2	65	110,000	1,692	159.19
	3	75	150,000	2,000	185.81
Semi-detached	2	85	130,000	1,529	142.05
	3	95	180,000	1,895	176.05
Detached	3	110	190,000	1,727	160.44
	4	135	370,000	2,741	254.65
	5	150	425,000	2,833	263.19
	6	200	550,000	2,750	255.48

**Annex A**

<b>Developer: Esh Developments</b>	<b>sq. ft. GIA</b>	<b>Price £</b>	<b>£/per sq. ft.</b>	
<b>Development Address: The Vanern, The Old Baths, Newcastle Road, Sunderland SR5</b>				
Type:	4 bed detached	1183 sq ft	£299,995	253.59
The Bolam	4 bed detached	1544 sq ft	£264,995	171.63
The Sherbourne:	4 bed detached	1134 sq ft	£249,995	220.45
The Deveonshire	4 bed detached	1128 sq ft	£219,995	195.03
The Wellington	4 bed town house	1250 sq ft	£199,995	160.00

**Developer: Glenrose**

**Development Address: Middle Farm, Tunstall, Sunderland**

Type:				
Plot 2	4 bed detached	1700 sq. ft.	£190,000	111.76
Plot 4	4 bed detached	1275 sq. ft.	£215,000	168.63
Plot 5	4/5 bed detached	1710 sq. ft.	£245,000	143.27

**Development Address: Nile Street, Sunderland**

apartments	1 bed	£65,000
	2 bed	£110,000

**Development Address: Roker Lea, Fulwell, Sunderland**

apartments	1 bed	£95,000
	2 bed	£135,000

**Development Address: Rydale Park, Roker, Sunderland**

3 storey	5 bed	2116 sq. ft.	£315,000
2 storey	5 bed	1791 sq. ft.	£295,000

**Developer: Bett Homes**

**Development Address: Station Road, Penshaw, DH4 7PA**

Dalton	3 bed	919 sq. ft.	£189,995	206.74
Newton	3 bed	1026 sq. ft.	£199,995	194.93

**Developer: David Wilson Homes**

**Development: Teal Farm Barmston, Washington**

	2 bed	660 sq. ft.	£115,500	175.00
	3 bed	810- 1005 sq. ft.	£205,000 large	203.98
		1370, 1492 &	£235,000, £244,000 &	171.53, 178.10
	4 bed	1528 sq. ft.	£280,000	& 183.25
		1538 & 2042 sq.		
	5 bed	ft.	£362,000 to £411,000	235.37 to 201.27

**Your Move agent for unnamed developer**

**Development: Kingfisher Lane, Ayton, Washington**

	4 bed integral garage	£269,950
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**Development: Station Road, Penshaw DH4**



4 bed det intg gar	£230,995
3 bed det intg gar	£209,995
3 bed det no gar	£189,995
3 bed semi no gar	£179,995

**Developer: Charles Church**

**Development: Lingfield Meadows, Gillas Lane, Houghton Le Spring DH5 8QA**

4 bed det	£220,950
4 bed det	£228,950
4 bed det	£248,950

**Developer: Bellway**

**Development: Burdon Lane, Ryhope Sunderland SR2 0JN**

Somerton	3 bed det	no price
Brampton	2 bed semi	£184,995
Faceby	3 bed semi	£184,995
Bracknell	4 bed det	£192,995
Stourton	4 bed det	no price
Montague 2	3 bed det	£196,995
Weston	4 bed det	£229,995

**Development: Cleadon Vale, South Shields**

Stanford	2 bed end terr	£129,995
Salisbury	3 bed semi	£152,995
Salisbury C	3 bed semi	£152,995
Salisbury C	3 bed det	£152,995
Sandhurst	3 bed semi	£154,995

**Development: Teal Farm, Washington**

Eastleigh C	3 bed semi	£174,995
Brampton 2	3 bed semi	£179,995
Kingston 3 C	3 bed semi	£179,995
Faceby C	3 bed semi	£179,995
Brampton 2	3 bed det	£189,995
Stourton 2	4 bed det	£214,995
Weston 2	4 bed det	£247,995

**Dvelopment: Emmerson Oak, Crake way, Washington NE37 1 LE**

Salisbury	3 bed semi	no price
Brampton 2	3 bed semi	no price
Sanhurst	3 bed semi	£144,995
Southleigh	3 bed semi	no price
Sandhurst 2	3 bed det	£154,995
Brampton 2	3 bed det	£159,995
Belsay 2	4 bed det	no price





**Development: Dall Street, South Hylton, Sunderland**

5 bed semi £199,950

**Developer: Andrew Craig - agent**

**Development: Swan Court, Hylton Castle, Sunderland**

2 bed det £134,950

**Developer: Alfred Pallas - agent**

**Development: Wentbridge, North Hylton, Sunderland**

3 bed mid terr £125,000

**Developer:**

**Barratt**

**Development: Barmston Road, Teal Park Farm, Washington NE38 3QL**

Turner

apartments	GF 2 bed		£115,500	
	1F 2 bed		£118,500	
	2F 2 bed		£120,995	
Newton	2 bed semi	1,042	£135,995	130.51
	2 bed semi		£144,995	
Barwick	3 bed semi	800	£167,995	209.99
	3 bed semi		£167,995	
Padstow	3 bed semi	1,136	£190,000	167.25
Tavistock	4 bed det	1,221	£245,995	201.47
Somerston	4 bed det		£258,995	
Guisborough	4 bed det	1153	£266,995	231.57

Developer: Persimmon

**Development: Alexandra park, Carol Street, Sunderland SR4 6BT**

	2 bed end ter		£114,950	
The Swale	3 bed 3 storey		£141,950	
The Swale	3 bed 3 storey		£143,950	
The Hanbury	3 bed semi		£145,950	
The Hanbury	3 bed mid ter		£147,950	
The Swale	3 bed 3 storey		£147,950	
The Swale	3 bed 3 storey		£147,950	
The Swale	3 bed 3 storey		£147,950	
The Swale	3 bed 3 storey		£147,950	
The Hanbury	3 bed end ter		£149,950	
The Hanbury	3 bed end ter		£149,950	
	3 bed 3 storey		£164,950	
The Hatfield	3 bed det		£178,950	
The Hatfield	3 bed det		£189,950	
The Hatfield	3 bed det		£194,950	



The Roseberry	4 bed det	£199,950
The Roseberry	4 bed det	£199,950
The Roseberry	4 bed det	£209,950
The Roseberry	4 bed det	£214,950

**Developer: Gleeson**

**Development: Marley park, North hylton, Sunderland SR5 5BL**

2 bed	£94,995
3 bed	£106,950
4 bed	£144,995

**Development: Highfield Park, Fordfield, Sundreland SR4 0BJ**

2 bed	£104,950
3 bed	£117,995
4 bed	£159,995

**Development: Hnery Court, Henry Street, Sunderland DH5 9AT**  
no information available

**Developer: Keep Moat Homes**

**Development: The Wynde, South Shields**

The Oakhurst	3 bed 3 storey	1011.00	£164,995	163.20
The Normanby	2 bed mid ter	665.00	£117,995	177.44
The Ashby	3 bed end ter	765.00	£129,995	169.93
The Canterbury	3 bed end ter	765.00	no price	
The Ambrose	3 bed crnr	828.00	£134,995	163.04
The Clarendon	3 bed semi	858.00	£137,995	160.83

**Development: Trinity South, South Shields**

The Calder	4 beds	1250.00	£159,995	128.00
The Swale	3 beds	926.00	£154,995	167.38
The Coquet	4 beds	1135.00	£159,995	140.96

**Development: The Homesteads, Shotton**

The Oakhurst	3 beds	1011.00	£129,995	128.58
The Clarendon	3 beds	858.00	£99,995	116.54
The Ashby	3 beds	765.00	£94,995	124.18
The Normanby	2 beds	665.00	£89,995	135.33

**Agent: Sanderson Young: Hall Green Meadows, West Boldon**

2 bed apart	689.00	150,000 - 160,000	217.42 to 232.26
3 bed terr	1281.00	199,950 - 204,950	156.00 to 160.00

## Appendix 2 – Chapel Garth Base Appraisal

Number	1	Units	NET Area	Density	rage Unit Size	Developed	Density	Total Cost	Rate
				Units/ha	m2	m2	m2/ha		£/m2
<b>Chapel Garth</b>		<b>650</b>	<b>22.00</b>	<b>29.55</b>	<b>129</b>	<b>83,769</b>	<b>3,808</b>	<b>73,730,501</b>	<b>880.16</b>
		<b>Beds</b>	<b>No</b>		<b>m2</b>	<b>Total</b>		<b>BCIS</b>	<b>COST</b>
<b>Market</b>									
Flat	1	0			45	0.00	10%	923	0
	2	0			62	0.00	10%	923	0
Terrace	2	0			65	0.00		819	0
	3	64			75	4,800.00		819	3,931,200
Semi	2	0			85	0.00		806	0
	3	66			95	6,270.00		806	5,053,620
Det	3	0			110	0.00		896	0
	4	260			135	35,100.00		896	31,449,600
	5	130			150	19,500.00		896	17,472,000
	6	65			200	13,000.00		896	11,648,000
<b>Affordable</b>									
Flat	1	0			45	0.00	10%	923	0
	2	0			67	0.00	10%	923	0
Terrace	2	33			75	2,475.00		819	2,027,025
	3	32			82	2,624.00		819	2,149,056
Semi	2	0			80	0.00		806	0
	3	0			85	0.00		806	0
Det	3	0			86	0.00		896	0
	4	0			100	0.00		896	0
	5	0			125.00	0.00		896	0
	6	0			150.00	0.00		896	0
						0.00			0



## Appendix 3 – North of Burdon Lane Base Appraisal

Number	2	Units	Area	Density	rage Unit Size	Developed	Density	Total Cost	Rate
			ha	Units/ha	m2	m2	m2/ha		£/m2
<b>North of Burdon Lane</b>		<b>955</b>	<b>27.28</b>	<b>35.01</b>	<b>107</b>	<b>101,955</b>	<b>3,737</b>	<b>88,101,613</b>	<b>864.12</b>
		<b>Beds</b>	<b>No</b>		<b>m2</b>	<b>Total</b>		<b>BCIS</b>	<b>COST</b>
<b>Market</b>									
Flat	1	0			45	0.00	10%	923	0
	2	0			62	0.00	10%	923	0
Terrace	2	43			65	2,795.00		819	2,289,105
	3	172			75	12,900.00		819	10,565,100
Semi	2	43			85	3,655.00		806	2,945,930
	3	172			95	16,340.00		806	13,170,040
Det	3	0			110	0.00		896	0
	4	344			135	46,440.00		896	41,610,240
	5	86			150	12,900.00		896	11,558,400
	6	0			200	0.00		896	0
<b>Affordable</b>									
Flat	1	14			45	630.00	10%	923	639,639
	2	14			67	938.00	10%	923	952,351
Terrace	2	26			75	1,950.00		819	1,597,050
	3	26			82	2,132.00		819	1,746,108
Semi	2	0			80	0.00		806	0
	3	15			85	1,275.00		806	1,027,650
Det	3	0			86	0.00		896	0
	4	0			100	0.00		896	0
	5	0			125.00	0.00		896	0
	6	0			150.00	0.00		896	0
						0.00			0

SITE NAME	Site 2		DEVELOPMENT COSTS										Stamp duty calc - Add Profit										Build Cost									
	Av Size m2	%	Number	Price E/m2	GDV £	GIA m2	LAND	PLANNING	CONSTRUCTION	FINANCE	SALES	Developers Profit	Stamp duty calc - Add Profit	Stamp duty calc - Add Profit	Build Cost	Stamp duty calc - Add Profit	Stamp duty calc - Add Profit	Build Cost	Stamp duty calc - Add Profit	Stamp duty calc - Add Profit	Build Cost	Stamp duty calc - Add Profit	Stamp duty calc - Add Profit	Build Cost								
INCOME	110.5	90%	955	2,430	2,307,886,643	94,979																										
Market Housing	72.9	3%	24	1,215	21,14,888	1,740																										
Shared Ownership	72.9	8%	72	986	5,147,990	5,221																										
Affordable Rent	72.9	0%	0	900	0	0																										
Social Rent	72.9	0%	0	900	0	0																										
Grant and Subsidy																																
Allocable Rent																																
Social Rent																																
SITE AREA - Net	27.28	ha	35	/ha	238,051,921	101,036																										
SITE AREA - Gross	88.61	ha	11	/ha																												
Sites per Quarter	5																															
Unit Build time	3	Quarters																														
Residual Land Value	30,977,336																															
Incremental Site Value	1,772,300																															
Uplift	304,440																															
Viability Threshold	24,783,140																															
Additional Profit	2,315,563																															
RESIDUAL CASH FLOW FOR INTEREST																																
INCOME																																
UNITS Served																																
Market Housing																																
Shared Ownership																																
Affordable Rent																																
Social Rent																																
Grant and Subsidy																																
INCOME																																
EXPENDITURE																																
Stamp Duty																																
Elements etc.																																
Legals Acquisition																																
Planning Fee																																
Architects																																
QS																																
Planning Consultants																																
Other Professional																																
Build Cost - BCIS Base																																
1109/CL																																
Contingency																																
Abnormals																																
Finance Fees																																
Legal and Valuation																																
Agents																																
Legals																																
COSTS BEFORE LAND INT AND PRO																																
For Residual Valuation																																
Interest																																
Profit on Costs																																
Profit on GDV																																
Cash Flow																																
Opening Balance																																
Closing Balance																																

## Appendix 4 – Cherry Lane Base Appraisal

Number	3	Units	Area ha	Density Units/ha	verage Unit Size m2	Developed m2	Density m2/ha	Total Cost	Rate £/m2
<b>Cherry Knowle</b>		<b>770</b>	<b>30.80</b>	<b>25.00</b>	<b>123</b>	<b>94,951</b>	<b>3,083</b>	<b>83,435,566</b>	<b>878.72</b>
		<b>Beds</b>	<b>No</b>		<b>m2</b>	<b>Total</b>		<b>BCIS</b>	<b>COST</b>
<b>Market</b>									
Flat	1	0			45	0.00	10%	923	0
	2	0			62	0.00	10%	923	0
Terrace	2	35			65	2,275.00		819	1,863,225
	3	69			75	5,175.00		819	4,238,325
Semi	2	0			85	0.00		806	0
	3	104			95	9,880.00		806	7,963,280
Det	3	0			110	0.00		896	0
	4	277			135	37,395.00		896	33,505,920
	5	139			150	20,850.00		896	18,681,600
	6	69			200	13,800.00		896	12,364,800
<b>Affordable</b>									
Flat	1	12			45	540.00	10%	923	548,262
	2	12			67	804.00	10%	923	816,301
Terrace	2	21			75	1,575.00		819	1,289,925
	3	21			82	1,722.00		819	1,410,318
Semi	2	0			80	0.00		806	0
	3	11			85	935.00		806	753,610
Det	3	0			86	0.00		896	0
	4	0			100	0.00		896	0
	5	0			125.00	0.00		896	0
	6	0			150.00	0.00		896	0
						0.00			0





## Appendix 5 –South Ryhope Base Appraisal

Number	4	Units	Area	Density	rage Unit Size	Developed	Density	Total Cost	Rate
			ha	Units/ha	m2	m2	m2/ha		£/m2
<b>South Ryhope</b>		<b>450</b>	<b>12.86</b>	<b>34.99</b>	<b>104</b>	<b>46,823</b>	<b>3,641</b>	<b>40,300,841</b>	<b>860.71</b>
		<b>Beds</b>	<b>No</b>		<b>m2</b>	<b>Total</b>		<b>BCIS</b>	<b>COST</b>
<b>Market</b>									
Flat	1	0			45	0.00	10%	923	0
	2	0			62	0.00	10%	923	0
Terrace	2	41			65	2,665.00		819	2,182,635
	3	61			75	4,575.00		819	3,746,925
Semi	2	41			85	3,485.00		806	2,808,910
	3	80			95	7,600.00		806	6,125,600
Det	3	0			110	0.00		896	0
	4	142			135	19,170.00		896	17,176,320
	5	41			150	6,150.00		896	5,510,400
	6	0			200	0.00		896	0
<b>Affordable</b>									
Flat	1	7			45	315.00	10%	923	319,820
	2	7			67	469.00	10%	923	476,176
Terrace	2	12			75	900.00		819	737,100
	3	12			82	984.00		819	805,896
Semi	2	0			80	0.00		806	0
	3	6			85	510.00		806	411,060
Det	3	0			86	0.00		896	0
	4	0			100	0.00		896	0
	5	0			125.00	0.00		896	0
	6	0			150.00	0.00		896	0
						0.00			0





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

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

The main areas of expertise are:

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

HDH Planning and Development have clients throughout England and Wales.

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