Suffolk Coastal District Council

Viability Study

In relation to

Site Allocations and Area Specific Policies Development Plan Documents

And the Felixstowe Peninsula Area Action Plan

February 2016

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Section 1

1.0. Introduction

1.1. In July 2013 Suffolk Coastal District Council adopted the Suffolk Coastal District Local Plan – Core Strategy and Development Management Policies Document which sets out key strategic policies for the district. The Council are now developing a number of planning documents that, together, will implement those strategic policies.

1.2. Site Allocations and Area Specific Policies Development Plan Documents, and the Felixstowe Peninsula Area Action Plan are due to be submitted to the Planning Inspectorate in June 2016. Before submitting any policy documents the Council want to ensure that any proposed sites for development are deliverable, and that the proposed approach does not have any detrimental impact on viability across the district. The Council therefore commissioned an independent viability study.

1.3. This report sets out the methodology and assumptions used to carry out the viability assessment of specific sites within Suffolk Coastal District council area and a summary of the findings.

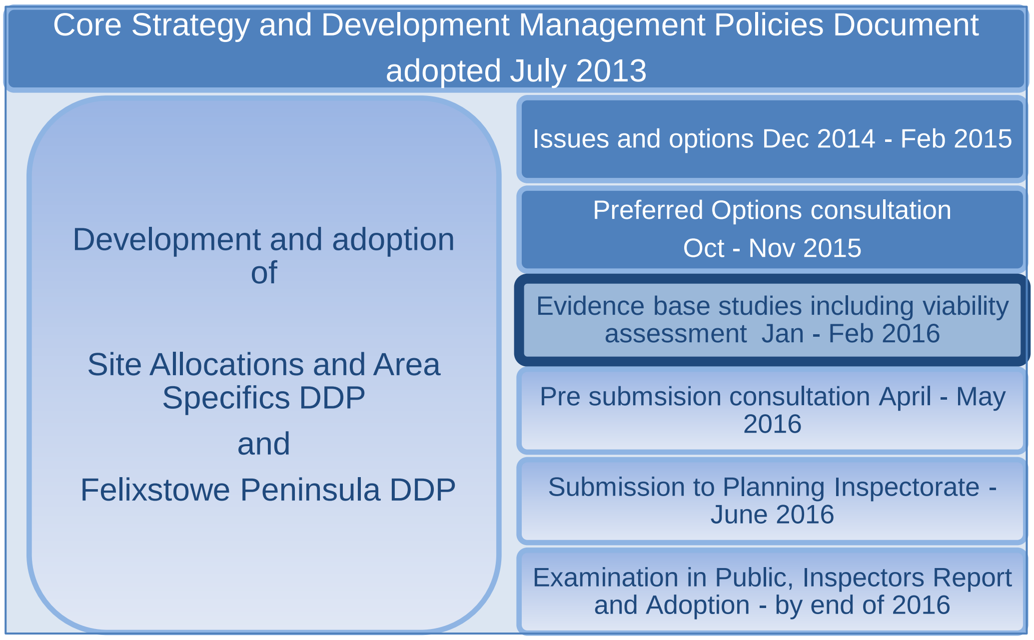
2.0. **Context**

2.1. The viability study was commissioned as part of the overall process of developing the Suffolk Coastal District Local Plan which is ongoing.

2.2. The study is part of an evidence base that is required when the Plan is submitted to the Planning Inspectorate. The Council must demonstrate that it has make adequate plans to meet objectively assessed needs for housing and other development within the district as far as is consistent with national planning policy. This includes identifying a five year supply of specific deliverable sites.

2.3. The diagram below sets the timetable that the Council is working to and specifically how this viability study fits into the process as detailed in the Council's Local Development Scheme (adopted October 2015).

Diagram 1 – Overview of process for adoption of Local Plan



3.0. Our approach to this study

3.1. Our overall approach to this study reflects government and industry guidance, takes into account the stage of the process of the Local Plan development in Suffolk Coastal District Council and the wish of the council to engage positively with developers, landowners and agents.

3.2. The Council had consulted on preferred options in regard to Site Allocations and Area Specific Policies DPD and Felixstowe Peninsula AAP during October and November 2015 and, as a result, had identified 23 key sites it wished to include in its submission to the Planning Inspectorate. The approach to testing viability was therefore to assess each of these actual sites, rather than notional sites. 21 of the 23 sites are primarily for residential development. 1 site is for commercial use. 1 site has been assessed on the basis of 3 different land uses – 2 elements are for residential and 1 is for commercial. These sites are listed in Appendix A.

3.3. We developed a bespoke assessment framework for this viability study taking into account Planning Guidance and consideration of the local market conditions and planning policies.

3.4. On 4th February 2016 we held a workshop specific to this study at Suffolk Coastal District Council Offices. The council's planning policy team invited the promoter for each of the residential sites along with 5 different promoters for the site which is solely for commercial use. 7 promoters attended on the day. Appendix B lists the attendees.

3.5. The purpose was to present the proposed methodology and specifically the assumptions that we had included in our bespoke framework and to listen to feedback from the promoters. That would allow us to amend aspects of the modelling framework if required before proceeding to use it in the assessment of each site. The workshop allowed us to be transparent about our approach and, as far as possible, ensure that promoters – and others – would understand in due course the basis for the conclusions we would draw on each site being assessed.

3.6. At the workshop we presented and discussed with the promoters present a range of issues including

- Viability theory and definitions of terms used
- Assumptions that we proposed making in relation to
    - The property types and sizes we anticipate on sites
    - Sales rates
    - Sales values
    - Costs in relation to site acquisition, construction, market and sales, finance and how abnormal costs would be taken into account
    - Impact of Community Infrastructure Levy and policies relating to affordable housing
    - Residual and Target Land Values
- Adjustments that might be made to achieve viability

3.7. Promoters attending the workshop were able to question us and put forward ideas on the day. They were also offered the opportunity to come back to us with further information - particularly important to allow for submission and consideration of commercially sensitive or confidential information. This opportunity was indeed taken up by some promoters.

3.8. As a result of the feedback we reviewed and adjusted some assumptions. Specifically we

- Amended the % assumed for plot external costs
- Amended the % assumed for site wide costs
- Clarified the definition of net and gross developable areas
- Clarified what is included in the base build cost and clarified that an element for overhead and profit is allowed for, albeit separately, rather than as part of the base building costs
- Increased the margin between the residual land value and the Target Land Value (as defined further in 8.2) to give additional comfort
- Reviewed the profit we were proposing on Gross Development Value (following feedback from one promoter). Having also reviewed Inspector's decisions in regard to this matter, we did not make changes.

3.9. This input from promoters is therefore reflected in the assumptions and methodology set out in detail in Section 2 of this report.

3.10. Finally we assessed each of the sites which had been identified for inclusion in the submission to the Planning Inspectorate following the Preferred Options consultation (as listed in Appendix A).

4.0. The scope of this report

4.1. This is a summary report. It sets out the key guidance and standard methodology that should be used in any viability study. It explains the specific assumptions we have made for this study in drawing up a bespoke modelling framework for sites within Suffolk Coastal District Council and the sources and rationale for those assumptions.

4.2. This report summarises the findings of the assessment. This sets out, on a site by site basis whether a site is considered viable (and on what terms) or not viable. It includes caveats as appropriate.

4.3. Although the report includes assumed figures for build costs and land /property values etc it does not include the detailed data sets or information that sit behind those assumptions Nor does the report include actual calculations/spreadsheets for each site. This information is considered to be technical or overly detailed for publication and/or contains information provided in confidence.

4.4. For ease of reference abbreviations used throughout this report are set out in Appendix C.

4.5. Limitations

4.5.1. This report does not constitute a formal 'Red Book' valuation (RICS Valuation - Professional Standards, March 2012) or should not be relied upon as such. It is a viability study carried out in line with RICS guidance note, Financial Viability in Planning 2012. Specifically, it should be noted that viability assessments of each site and conclusions set out in Section 3 of this report, were carried out on the basis of a broad based study, given the limited detailed site information available. This report is confidential to the Client and the authors accept no responsibility of whatsoever nature to third parties to whom this report or any part thereof is made known. Any such party relies upon the report at their own risk.

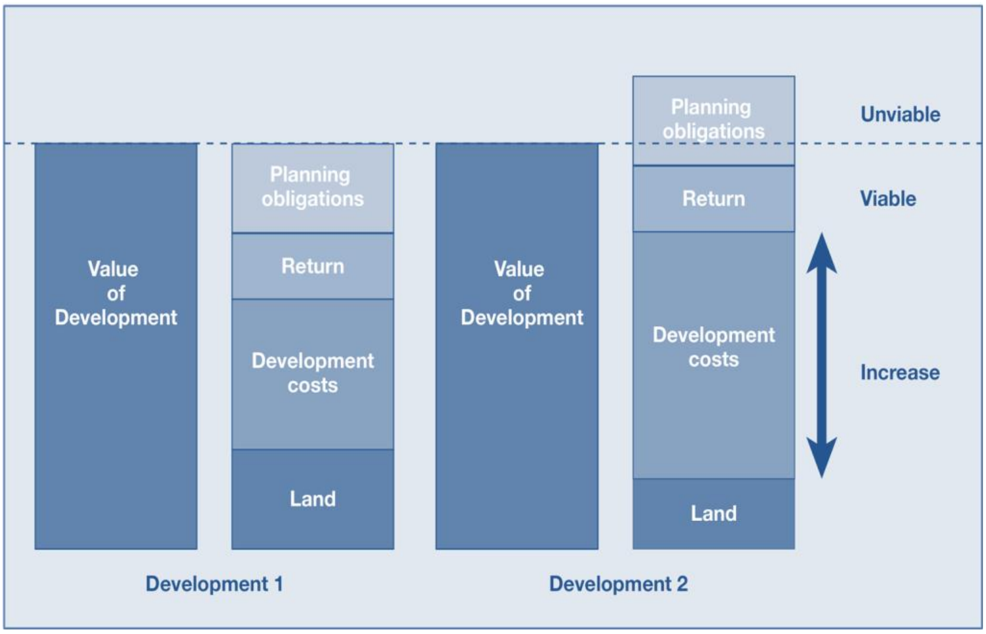
Section 2

5.0. Standard Methodology in assessing viability

5.1. Economic Viability Analysis (EVA) is based upon a residual land value calculation, supported by a design and build cost estimate in as much detail as possible, and a scheme cash flow plotting the pattern of likely cash spend and income to generate interest on development finance.

5.2. The difference between gross development value and total cost equates to a residual land value. The model runs over a development period from the date of commencement of the project, to completion when the development has been constructed, sold and occupied. In order to assess whether a development scheme can be regarded as economically viable, it is necessary to compare residual land values produced with threshold or benchmark land values. If the development proposal generates a residual land value that is higher than the threshold or benchmark for the scheme, it can generally be regarded as economically viable and therefore capable of providing affordable housing. However, if the scheme generates a residual land value which is lower than the threshold or benchmark it should not be deemed as economically viable (as illustrated in Diagram 2 below). The standard convention of working with current values and costs is used rather than those predicted in the future.

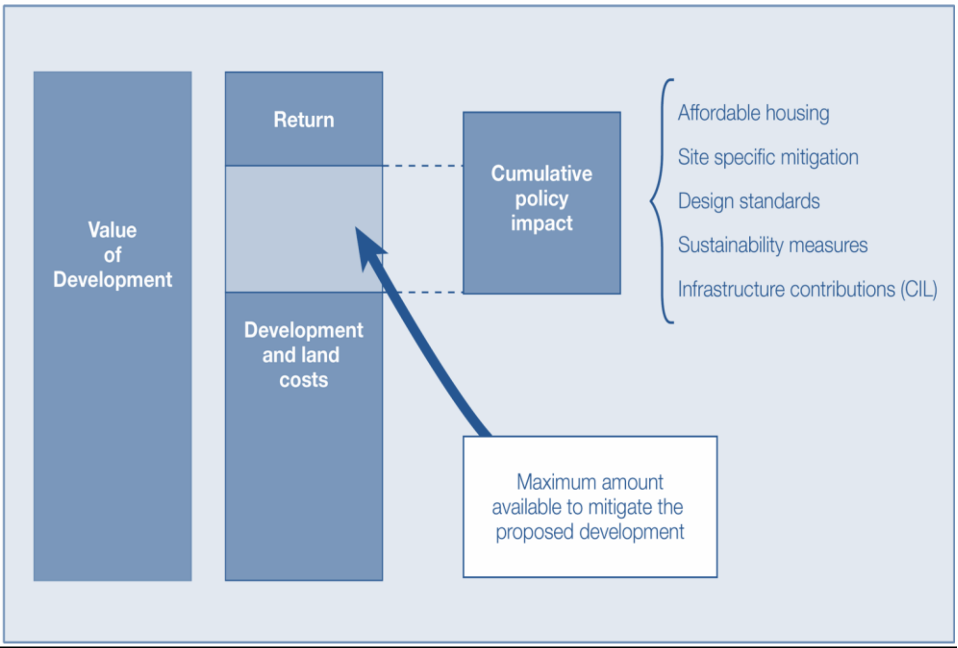
Diagram 2 - Comparative development viability



5.3. Diagram 2 illustrates the balance required to achieve a viable scheme – Development 1. It also shows how a scheme becomes unviable where there are increased development costs, due to site considerations along with planning obligations – Development 2.

5.4. A viability assessment will have regard to not just single policy impacts but a cumulative impact of policy and planning obligations as illustrated in Diagram 3.

Diagram 3 - Cumulative impact of policy and planning obligations



6.0. Planning Guidance

6.1. The strong policy background detailing the objectives and method for undertaking Economic Viability Assessments. This includes -

6.1.1. In the context of achieving sustainable development the National Planning Policy Framework (NPPF) March 2012, refers to ensuring viability and deliverability at sections 173 – 177.

> "*To ensure viability, the cost of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions and other requirements should, when taking into account the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable a development to be deliverable." (Paragraph 173)*

6.1.2. The NPPF also refers to the use of Planning Conditions and obligations of Sections 203-206 and advises that where obligations are being sought:

> *"…local planning authorities should take account of changes in market conditions over time and wherever appropriate be sufficiently flexible to prevent planned development being stalled."* (Paragraph 205)

6.1.3. The National Planning Practice Guidance notes:

> *"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."*

6.1.3. The Royal Institution of Chartered Surveyors (RICS) has produced a guidance note, Financial Viability in Planning (August 2012). This is now being referred to by planning inspectors in appealed decisions. The RICS guidance note defines viability and the context of undertaking appraisals of financial viability for the purpose of town planning decisions as:

> "*An objective financial viability test of the ability of a development project to meet its costs including the costs of planning obligations, by ensuring an appropriate site value for the land owner at a market risk adjusted return to the developer in delivering that project."*

6.1.4. The guidance goes on to note:

> "*site value should equate to the market value subject to the following assumption: that the value has regard to the development plan policies and all other material planning considerations and disregard that which is contrary to the development plan."*

6.1.5. Any assessment of site value however will have regard to prospective planning obligations, and the point of the viability appraisal is to assess the extent of these potential obligations and also have regard to the prevailing property market. The fundamental issue in considering viability assessments in a town planning context is whether an otherwise viable development is made unviable by the extent of planning obligations and other requirements.

6.1.6. The RICS guidance emphasises that a proper understanding of financial viability is essential in ensuring that:

- Land is willingly released for development by land owners
- Developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development.
- The proposed development is capable of securing funding

6.1.7. Where planning obligation liabilities reduce the site value to the landowner and return to the developer below an appropriate level, land will not be released and therefore development will not take place.

6.1.8. In their April 2012 topic paper practice note, the Homes and Community Agency (HCA) Advisory Team for Large Applications (ATLAS) Team note:

> *"The issue of viability is a material consideration in decision making. The weighting attached to it needs to be balanced with the circumstances of any specific project, the underlined policy basis and all the other relevant material planning considerations. In the current economic climate, when project viability is often a key barrier preventing development from proceeding and potentially hindering its ability to meet all established policy objectives, it is critical…(have a good understanding of the use of financial appraisals to test viability)".*

6.1.9. The Department for Communities and Local Government (DCLG) publication "Section 106 affordable housing requirements – Review and Appeal, April 2013" notes the following:

- The test for viability is that the evidence indicates that the current cost of building out the entire site (at today's prices) is at a level that would enable the developer to sell all the market units on the site (in today's market) at a rate of build out evidenced by the developer, and make a competitive return to a willing developer and a willing landowner.
- Any purchase price used should be benchmarked against both market values and sale prices of comparable sites in the locality.

7.0. Assumptions used in our modelling framework

7.1. The inputs to viability appraisals are hard to determine for specific proposed site allocations at an early stage such as is the case with the sites Suffolk Coastal District Council wish to asses, without the benefit of detailed designs or enquires undertaken by the developer (as demonstrated by the complexity of many S106 negotiations). Therefore our viability assessments are necessarily broad approximations, subject to a margin of uncertainty.

7.2. The assumptions are primarily made in the context that the majority of sites proposed are for residential development. In 7.8 below we set out the specific assumptions we have made in respect of commercial use (and commercial elements within other sites); related caveats to the assessment of commercial sites are also included in the conclusions section of this report. The assumptions below take into account feedback from promoters at the consultation workshop as set out in 3.8 above.

7.3. Property Type and Sizes

Diagram 4 sets out the number of homes, bedroom size and gross internal floor area we expect to see on a typical residential site. They broadly align with the target proportions of houses size across the district as set out in Table 3.6 (page 33) of the Core Strategy.[1] The split between market and affordable homes is based on Core Strategy Policy DM2 (33% of homes being affordable).

Diagram 4 – Property Types and Sizes

Site Size No. of homes	Affordable Housing number	Market housing number	Bedrooms				GIFA
			1	***2***	***3***	***4***	**Total m2**
			48m2	***74m2***	***90m2***	***150m2***	
5	1	4	*-*	*2*	*1*	*2*	538
10	3	7	*2*	*3*	*2*	*3*	948
20	6	14	*4*	*6*	*6*	*4*	1,776
30	10	20	*4*	*9*	*10*	*7*	2,808
50	16	34	*6*	*16*	*18*	*10*	4,592
100	33	67	*13*	*32*	*35*	*20*	9,142

[1] Available at http://www.suffolkcoastal.gov.uk/assets/Documents/LDF/SuffolkCoastalDistrictLocalPlanJuly2013.pdf

7.4. Gross Development Value

7.4.1. For open market properties we have assumed sales values based on postcode averages for the last 12 months, plus up to a maximum of a 10% uplift, to represent uplift to new build sales prices being achieved where sales data indicates that this is appropriate. The key sources for this information were Rightmove, Zoopla, and Land Registry data.

7.4.2. Values used for affordable housing are based on a market rates over the last 12 months – we have evidence of these rates through our close working with Registered Providers who are active in the area.

7.5. Gross Development Costs

7.5.1. Site Acquisition Costs

We have included site acquisition costs to cover agent and legal fees at a total of 2% of the residual land value. Stamp duty at the prevailing rate has been allowed for calculated at the residual value.

7.5.2. Construction Costs

We have assumed that all design costs (site survey, architecture, engineering planning consultant and fees), are included within the design and build cost. Our cost plan is based on the information made available in the Preferred Options Consultation document of October 2015.

Base build costs have utilised the location adjusted *Building Cost Information Service (*BCIS) data, with a 12% enhancement for external works on sites of up to 25 homes and 17% for larger sites. We have not deducted an allowance for a contractor's profit contained within base BCIS costings but have, separately, also allowed for overhead and profit elsewhere. This represents an additional 6 - 10% uplift on base prices to cover plot external costs.

Rates used are adjusted to reflect the location factor for Suffolk Coastal and are at the higher, mean level for estate housing. (Significant evidence exists on larger developments that volume house builders' rates are lower than this due to the economies they deliver - we have not taken this into account).

7.5.3. Abnormal and Additional Construction Costs

Abnormal and additional costs have been allowed for to comply with known policy requirements. Contingency costs have been allowed for at a rate of 2%.

7.5.4. Design & Professional Fees

Allowances have been included to cover all design and professional fees, at 7%. This is in the middle of the standard range of 5 to 10% of fees typically assumed in Economic Viability testing, and takes into account the nature of the development.

7.5.5. Community Infrastructure Levy (CIL) Contributions

CIL contributions have been allowed for in line with the original rates contained within Suffolk Coastal District Council's adopted charging schedule, for the appropriate value area.

7.5.6. Marketing and Sales Costs

We have adopted full marketing sales and disposals costs within the appraisal, including:

- Marketing costs of the private properties
- Agent's fees
- Legal fees associated with private sales

On this basis we have assumed a sales and marketing cost of 2% of the gross development value of the open market sales properties plus £600.00 per property for legal fees. For affordable housing we have assumed agent fees of £1,500 for the scheme with legal costs at the same level as market value sales.

7.5.7. Finance Costs.

Where development finance is available, lenders are currently charging minimum rates of at least 6%. Arrangement (1%), monitoring (2%) and exit fees (1%) are also charged. These onerous lending terms persist due to on-going resistance to lending on residential development in the current market. We have adopted an interest rate of 6% with no additional allowance for fees, which we consider to be a standard assumption for development in the current economic climate.
It is conventional to assume finance on all costs in order to reflect the opportunity cost (or, in some cases, the actual cost) of committing equity to the project.

7.6. Development Programme

7.6.1. For the purpose on undertaking the Economic Viability Assessment only, we have assumed that a standard development of 25 homes, occurs over a 24 month period with the land being acquired in month one, and construction taking 18 months.

7.6.2. We have assumed sales of open market homes occur from month 12 to month 24 on an even basis. The rate of sales directly links to the assumed sales prices of individual homes. Affordable housing development assumes payment over a 9 month contract, commencing once initial infrastructure is in place.

7.6.3. These assumptions are particularly important in the calculation of development interest. The accounting for development interest on the land acquisition, from month one of the programme, is understated, as any historic holding costs of the site are not accounted for.

7.7. Overhead & Profit

7.7.1. When considering the changing economic climate, financial institutions have tightened their requirements for overhead and profit returns on all schemes. Banks have raised their expectations in terms of risk and required returns that new developments offer. It is currently deemed likely that any private residential development proposals predicting an overhead and profit return of less than between 17.5% and 25% of gross development value would not be considered viable. We have therefore adopted an overhead and profit rate of 20% of gross development value for the scheme, at the midpoint of the acceptable range.

7.7.2. As affordable housing contains less commercial risk, typically with a JCT Design & Build Contract or a Development Agreement being signed at the commencement of works, and monthly valuations of construction work, borrowing and risk are reduced and so lower levels of overhead and profit are the norm. We have therefore allowed an overhead and profit of 6% in relation to the delivery of affordable housing.

7.7.3. At the planning appeal for Shinfield, Reading (APP/X0360/A/12/2179141) the inspector deemed that “the usual target being in the range 20-25%” of gross development value. We have therefore adopted an overhead and profit rate of 20% of gross development value for the scheme, at the bottom of the acceptable range. This is in line with the recent appeal decision Chapel St Leonards APP/D2510/Q/14/2228037 noting this level of return is reasonable.

7.8. Assumptions used in assessing commercial sites

7.8.1. Paragraphs 7.1 to 7.7 above set out the assumptions we used in relation to the assessment of the residential sites. We used a different set of assumptions for the commercial sites (and commercial elements within other sites) which are standard to the Commercial Development Industry.

- The net developable area per hectare = 80% of the gross developable area per hectare

- Of the net developable area per hectare – 60% is floor area (GIFA) and 40% is for car parking/ yards / planting etc
- Of the 60% floor area – 15% is for office use; 85% is for commercial units
- The Target Land Value per net development hectare is assumed to be £500,000
- Gross Development Value for offices is £160 per annum per m2; for commercial units £80 per annum per m2
- For investment purposes – Year's Purchase @ an assumed 8% interest rate
- Build costs for offices - £1,312 per m2 and for commercial units £665 per m2
- 5% contingency
- 10% design fees
- 10% letting agents fees
- 5% legal fees for letting
- Interest rate of 6.5% on capital employed
- Profit of 18% of Gross Development Value

8.0. Methods for Assessing Land Values

8.1. Overview

8.1.1The minimum land value judged as capable of ensuring a site is brought forward is important in our calculations of scheme viability.

8.1.2. As noted in 6.1.1 Para 173 – 177of the NPPF notes that developments should

> *"provide competitive returns to a willing land owner and willing developer to enable a development to be deliverable."*

8.1.3. The 'Harman Report' (June 2012) notes that Threshold Land Value (TLV) should represent the value at which a typical willing landowner is likely to release land for development. The report notes that TLV needs to take account of the fact that future plan policy requirements will have an impact on and values and landowner expectations.

8.1.4. Market values provide a useful 'sense check' on the TLV, but 'Harman' recommends an approach based on a premium over current use values and credible alternative use values.

8.1.5. The report goes on to note that if local market evidence is that minimum price provisions are substantially in excess of initial assumptions, the TLV will require adjusting to reflect market evidence.

8.1.6. The RICS report 'Financial Viability in Planning,' defines Benchmark Land Values (BLV) as equating to the market value, subject to having regard to development plan policies and other material planning considerations and disregards that which is contrary to the Local Plan. It goes on to note for area wide viability testing, site value may need to be further adjusted to reflect emerging policy, at a level, which would not prejudice delivery.

8.1.7. The report also notes the BLV must be at a level which makes a landowner willing to sell. Comparable evidence is important in establishing BLV for scheme specific **as well** as area wide assessments.

8.1.8. It is common to refer to both Threshold Land Value (TLV) and Benchmark Land Values (BLV), as terms that are often interchangeable. For the sake of clarity and to avoid confusion, we have sought to differentiate these two terms, with a degree of clarity that perhaps goes beyond the intent of the authors of the reports referred to above which is in line with increasingly commonly used practice.

- TLV – Value at which a typical willing landowner is likely to release land for development, and based typically on existing use value plus a premium
- BLV – Market value subject to considering planning policy and based on market evidence.

8.1.9. In this context we note the Examiner's report in relation to Greater Norwich Development Partnership CIL charging schedule (December 2012)

> "*…it is necessary to establish a threshold land value i.e. the value at which a typical willing landowner is likely to release land for development. Based on market experience…a landowner would expect to receive at least 75% of the benchmark value… It is reasonable to see a 25% reduction in benchmark values as the maximum that should be used…*

8.1.10. This approach was also uncontested and accepted at the Sandwell CIL examination in July 2014. In short if land trades today at the BLV, the TLV should be no less than 75% of this.

8.2. Determining the land value

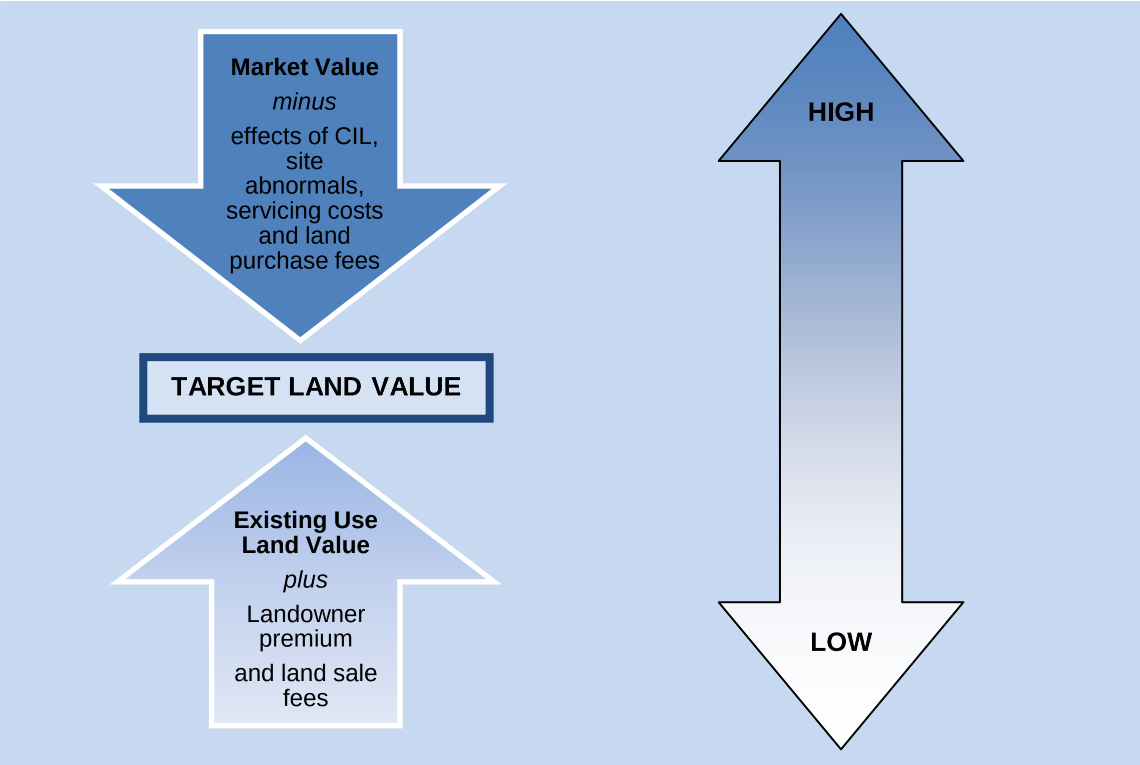
8.2.1. In assessing viability we want to establish a **Target Land Value** that is appropriate in ensuring landowners receive a competitive return (as distinct the separate approaches adopted in setting Threshold Land Value (TLV) or Benchmark Land Value (BLV).

8.2.2. Broadly speaking there are two different approaches to arrive at an appropriate Target Land Value:

- Assessing the uplift from an existing or known alternative use value - TLV.
- Assessing the discount from the market value of a site, adjusted to allow for the costs of planning policy - BLV.

8.2.3. Diagram 5 (over) illustrates how the two approaches start from different bases, but should theoretically produce a similar figure.

Diagram 5 – Approaches to arriving at a Target Land Value



8.2.4. A further explanation, along with the issues to take into account when considering both Threshold Land Values (TLV) and Benchmark Land Values, are set out in 8.3 and 8.4 below before returning to the issue of how the Target Land Value is determined.

8.3. Threshold Land Values (TLV)

8.3.1. To derive an appropriate TLV from the existing use value, it is necessary to work upwards in value. Harman and the RICS acknowledge that in order for development to come forward over the existing use, a 'competitive return' (also referred to as a premium) is necessary.

8.3.2. There is no set rule as to how much of a premium should be applied on top of the existing use value. We can sensibly expect that a minimum uplift in value would be required in order to allow the seller to pay stamp duty, sales fees, legal costs and disruption. But that bare minimum is usually not incentive enough to persuade a landowner to sell.

8.3.3. Beyond that bare minimum, an incentive (referred to as a 'premium') is required to encourage the landowner to sell. It is difficult to say what premium a seller would require in order to sell the land. This is because there are inevitable differences in each deal. For example, the motivations of the parties involved in the transaction may vary, as might perceptions of future market prospects. Some landowners (say family trusts, or Oxbridge Colleges) take a very long-term view of land holdings, and can only be persuaded to sell at a high price. We cannot know these individual circumstances, so Harman stipulates that an appropriate premium should be determined by local precedent - another way of saying market value.

8.3.4. In some instances an alternative use may be considered over residential development, e.g. employment, retail etc. Assuming that the alternative use is realistic, then it may be prudent to consider land values for this alternative use, in addition to its existing use. This may give a more accurate view of the TLV, because a rational landowner will always seek to maximise site value.

8.3.5. Regarding existing use values, sites coming forward for development in Suffolk Coastal District Council area most typically comprise green field sites. The Core Strategy (3.46) has a nominal brown field target of 12%. In the last monitoring year, 18% of residential completions were on brown field sites. The existing use value of these types of sites is quite low: the Valuation Office Agency (VOA) in 2011 reported agricultural land values in Suffolk of £19,760 per hectare and industrial land values in Norwich of £425,000 per hectare (no information was produced by the VOA specifically for Ipswich). Guidance issued by the HCA in “Transparent Assumptions: Guidance for the Area Wide Viability Model” 2010 states that for green field land, benchmarks tend to be in a range of 10 to 20 times agricultural value. In Knight Frank’s report, *The Rural Report*, Winter 2014, typical agricultural land value per hectare, in the East of England, are noted as being £25,946. This would give a TLV of between £259,460 per hectare and £518,920 per hectare.

8.3.6. As well as the *existing* use of the site, credible *alternative* uses should also be taken into account. Should an alternative use derive a higher land value, it is logical that a landowner would seek this higher value.

8.3.7. The alternative use depends on planning policy to a good degree. If a landowner knows that his site appears (or is likely to appear) in the development plan for residential land, he or she would only sell for this value (if greater than the existing use). The alternative use value sought will be particularly high in areas where the landowner is aware that high sales values for residential properties make land particularly valuable.

8.3.8. If sites in Suffolk Coastal District Council area have a realistic alternative use value for residential development (having been allocated in the emerging Local Plan) then landowners will anticipate this is the value sought for the site. We do not foresee other use types coming forward on the sites. In Suffolk Coastal District Council area land values for residential development are higher than the existing use values; it is therefore prudent to also understand market values, as described in greater detail in 8.5 below.

8.4. Benchmark Land Value

8.4.1. To derive an appropriate BLV from market values (as opposed to existing land use value) it is necessary to work downwards in value. Market values based on transactional evidence of sites being bought and sold, represents the value at which land can be delivered, with the knowledge of current planning policy. Thus BLV benefits from being based on comparable market evidence.

8.4.2. However, the BLV cannot be straightforwardly derived from current market values. The market value / BLV should be adjusted to allow for any future changes in planning policy. Furthermore, it may also be necessary to reduce the market value / BLV to allow for risk in obtaining planning permission, dependent upon comparable evidence. There is no set rule for the amount of discount that should be applied to the market value of a site.

8.4.3. This market comparable based approach considers land traded in the area. This market performance will inform landowners' 'hope values' for sites. After adjustment for various factors (such as time and various flavours of risk, such as whether the land had planning permission), we can start to make judgments about how comparable sites might trade.

8.4.4. We have been able to obtain a number of comparables from developers and agents in the area. This information was provided on a confidential basis and therefore the actual comparables used cannot be made available to the public.

8.5. Which method of estimating the land value does this study use?

8.5.1 We seek to determine a Target Land Value used to compare to Residual Land Values (RLV) on site specific proposals as outlined below, using a combination of both methods (i.e. a combination of TLV and BLV).

8.5.2. We examined a wide range of comparables, looking at residential development site values whilst taking into consideration existing uses. This is to ensure that the Target Land Value is as accurate as possible. Given the complexities of development across a whole plan area, and limited nature of publically available transactional data, we have based this assessment on appropriate available evidence for a strategic assessment of this nature.

8.5.3. From our recent work we would highlight several key issues in assessing the land value, as follows.

- It is important to stress that there is no single Target Land Value at which land will come forward for development. Much depends on the land owner and their need to sell or wait in the hope that land values might improve and on the condition and location of the site.
- All sites vary in terms of the degree to which they are serviced or free of abnormal development conditions. Such associated costs vary considerably

from site to site and it is difficult to adopt a generic figure with any degree of accuracy. Our starting point is to assume that the value of sites relates to a fully serviced development plot.

8.5.4. The land transaction market is not transparent. Very little data is in the public domain and the subjective influences behind the deal are usually not available. We have therefore placed a strong emphasis on consultation with both landowners and developers to get an accurate picture as possible as to what the Target Land Value might be, as well as data supplied by developers in making viability arguments to the council on site specific cases at a development control level.

8.6. Treatment of site abnormal development costs

8.6.1. Abnormal development costs or site servicing costs will be met by developers once the land is purchased. Careful analysis of transactions is required to assess the split between abnormal development and servicing costs (as a discount from the market value) from the premium sought by the land owner above the existing use value, or adjustments to the benchmark value to reflect the additional costs.

8.6.2. In short, sites with significant abnormal costs (contamination remediation, poor ground condition and exceptional servicing costs etc.), would lead to these costs being deducted from a BLV, or result in a lower premium for a TLV.

8.7. Bringing together the Target Land Value and the Residual Land Value

8.7.1. Having estimated the residual value on individual schemes, we compare this residual value with the Target Land Value the landowner will accept to release his or her land for the development.

8.7.2. If the residual land value shown by the appraisals is below the Target Land Value, the development is not financially viable. That means that unless the circumstances change the development will not be delivered. We have considered if a reduced affordable housing requirement would lead to viability in such circumstances.

8.7.3. If the residual value and the Target Land Value are equal (or if the residual value exceeds the Target Land Value, the development is viable.

8.8. Setting a Target Land Value

8.8.1. Having observed market transactions, the RICS guidance paper notes that we need to deduct an amount in order to take account of policy requirements. Where an adjustment is made,

8.8.2. The Inspector in the report on the examination of the London Mayoral CIL

(January 2012) commented:

> '*Finally the price paid for development land may be reduced. As with profit levels there may be cries that this is unrealistic, but a reduction in development land value is an inherent part of the CIL concept. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges*.' (paragraph 32)

8.8.3. The question, therefore, is how much we should adjust the land value downwards, in order to take account of policy costs such as the continuing requirement for affordable housing. RICS guidance requires us to comment on the state of the market and delivery targets as at the date of assessment and to set out our 'professional opinion underlying the assumptions adopted'.

8.8.4. If we look at the state of the market, our discussions with developers showed that effective demand for homes (i.e. demand from people willing and able to pay) is relatively strong in the area. However if we over-value land, the RICS report points out that we will reduce the amount available for planning contributions. This was taken into account when suggesting the Target Land Values below.

8.9. Target Land Values used

8.9.1. In suggesting a Target Land Value we are basing it on the net developable area[2]. We have reviewed the evidence above, and triangulated between existing use value, alternative use value and market value. Using our professional judgement, we believe that a sensible Target Land Value assumption for the area is as follows:

- High value area: £950,000 per net developable hectare
- Medium value area: £850,000 per net developable hectare
- Lower value area: £750,000 per net developable hectare

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[2] A net developable area is a more refined estimate than a gross developable and includes only those areas which will be developed for housing and directly associated uses. This will include:

- access roads within the site;
- private garden space;
- car parking areas;
- incidental open space and landscaping; and
- children's play areas where these are to be provided.

It therefore excludes:

- major distributor roads;
- primary schools;
- adult/youth play spaces or other open spaces serving a wider area; and
- significant landscape buffer strips.

We have assumed a net developable area only on sites of 30 units or above i.e. on sites of under 30 there is no deduction for net developable area. Where we are using a net developable are we are assuming it equates to 80% of the equivalent gross developable area. The definition above reflects discussions at the consultation event (see also 3.8)

8.9.2. For the commercial sites, we have set the Target Land Value at £500,000 per net hectare (as defined further in the reference footnote to 8.9.1 above)

8.9.3. The value areas used correspond to the Suffolk Coastal District Council CIL value areas and charging zones.[3] A map showing these value areas is included as Appendix D.

8.9.4. These land values quoted are broad average across each value zone. Site specific viability, including dealing with the costs of site specific constraints and landowners individual aspiration on land value, will of course vary. Any site abnormals which are not reflected in our appraisals should be deducted from the land values assumed.

8.9.5. However, it is acknowledged that there will always be a minimum return that a landowner will require to release a site for development, which may not be sufficient once the cost of abnormals are deducted.

[3] There are a number of differences between the Target Land Value we have arrived at and those proposed in the earlier CIL viability work. These relate to various factors including

- the passing of nearly two years;
- the introduction of the CIL adjusting market rates;
- an increase in market data available, particularly as a result of a number of viability challenges made by developers at a development control level in recent years,
- changes in the funding nationally of Registered Providers and the consequent impact on affordable housing provision
- rapid increases in build prices well documented elsewhere in this report

SECTION 3

9.0. Conclusions – are the sites viable?

9.1. Section 2 of this report sets out the assumptions, methodology and model we used in this study. Each of the 23 sites identified through the Preferred Options process were then assessed within this framework.

9.2. Fundamentally we were looking for the residual land value to be equal to or exceed the Target Land Value.

9.3. Based on original numbers of units proposed in the Site Allocations and Area Specific Policies Development Plan Documents, and the Felixstowe Peninsula Area Action Plan Preferred Options documents, we initially concluded that 13 of the 21 sites primarily for residential uses were viable; in addition the 2 residential elements of a further site[4] were viable. This was on the basis that they made a margin of at least 10% above the Target Land Value. A summary of the initial assessment is set out in Table A.

9.3. We then remodelled the 8 schemes that were initially assessed as unviable (or marginally viable), based on original number of units proposed. We determined the required number of units to make each of these 8 schemes viable based on now achieving a margin of at least 5% above the Target Land Value. Although an increased number of units are required on all these sites to make them viable, site densities remain low overall. Table B sets out the revised numbers.

9.4 The commercial sites[5] were assessed using a different set of assumptions from those used for residential sites (as set out in 7.8 of this report). The assessment concluded that the sites are viable however our view is that both are very sensitive to the market. Our opinion is that development will only occur in the current market if pre–lets at the top end of the range are available. Lower profits may well be acceptable if covenants are strong. The issues are no different from with any commercial development in the current market. A summary of the assessments of the commercial sites is set out in Table C.

[4] The site was assessed on the basis of 3 different land uses – 2 residential and 1 commercial
[5] 1 site – commercial only; 1 site which is the commercial element of a larger site (see footnote 4 above)

Table A – Assessment of viability on residential schemes based on original scheme numbers

Scheme reference	Location	No. units	HEC	HEC net **note 1**	Density	% Target Land Value	Viable?
SSP3 **note 2**	Aldeburgh	10	0.6		16.67	178	Yes
SSP4	Badingham	10	0.53		18.87	110	Yes
SSP5	Benhall	10	0.69		14.49	99	No
SSP7	Dennington	10	0.6		16.67	112	Yes
SSP8	Kelsale	20	1.86		10.75	77	No
SSP9	Orford	10	0.86		11.63	97	No
SSP12	Saxmundham	30	2.18	1.744	17.20	108	No
SSP13	Thorpness	5	0.4		12.50	123	Yes
SSP14	Westerfield **note 3**	10	1.64		6.10	65	No
SSP15	Westerfield **note 4**	20	0.8		25.00	121	Yes
SSP16	Witnesham	10	0.7		14.29	72	No
SSP17	Witnesham	10	0.79		12.66	63	No
FFP3	Felixstowe, Sea Road **note 5**	40	0.58		68.97	127	YES
FFP4 **note 6**	Felixstowe, Walton – sheltered use	50	0.75		66.67	105 **note 7**	
	Felixstowe, Walton – housing use	350	10	8	35.00	229	
FFP5	Felixstowe, north of Conway Close **note 8**	150	3.38	2.70	55.47	121	YES
FFP6	Trimley **note 9**	70	2.25	1.69	38.89	203	Yes
FFP7	Trimley	360	10.02	8.01	44.90	223	Yes
FFP8	Trimley	100	4.47	3.35	29.8	126	Yes
SSP	Aldringham	20	1.66		12.05	74	No
SSP	Hatcheson	10	0.56		17.86	115	Yes
SSP	Rendlesham **note 10**	50	4.3	2.15	23.26	149	Yes
SSP	Shottsiham	10	0.42		23.81	164	Yes

Notes to be read in conjunction with Table A

1. See 8.9.1 of report. For FFP6, FFP7, FFP8, and SSP12 only, net at 80% of gross area.

2. SSP3 comprises 3.0 HEC overall and is intended for two different residential uses – general residential use and a Care Home. 0.6 HEC is assumed for the general residential use element. We have notionally allowed the remaining 2.4 HEC of this site for the Care Home element. The Care Home element has not been specifically appraised because of lack of comparable evidence; however we would reasonably assume that it is no less viable than the general residential element of the scheme, or general needs accommodation would be provided in its place.

3. SSP14 - Assumes full policy compliance – Village Green and 33% affordable housing.

4. SSP15 - This site is actually 3.65 HEC however we have assumed 0.8 HEC is available for housing land, leaving the balance for current mixed uses.

5. FFP3 includes a ground floor commercial element required by policy which we have applied using its investment value – see also 7.8. of main report.

6. FFP4 - This site was assessed on the basis of 3 different land uses. The 3rd element is included in the table relating to commercial sites (Table C).

7. Although this is below the margin of 10% (see 9.3 above), we have assessed this as viable at this stage. This is because it is just one of 3 elements of this site and therefore can be considered within that wider context, and because the other housing element of the site scores a particularly high % Target Land Value.

8. FFP5 - We have substituted 2 bedroom bungalows for the 4 bedroom houses that the standard mix would generate – this is to comply with a policy requirement.

9. FFP6 - High proportion of bungalows proposed as policy must be considered against relatively high density, may result in reduction of numbers

10. SSP - 50% of site for net developable area; remainder for community/commercial use at no value

Table B – Assessment of viability of residential sites using revised number of units

Scheme reference	Location	Original no. units	Revised no. units	HEC	HEC net	Density	% Target Land Value	Is revised scheme Viable?
SSP5	Benhall	10	15	0.69		21.74	134	Yes
SSP8	Kelsale	20	30	1.86		16.13	109	Yes
SSP9	Orford	10	12	0.86		13.95	106	Yes
SSP12	Saxmundham	30	40	2.18	1.744	22.94	157	Yes
SSP14	Westerfield	10	20	1.64		12.20	131	Yes
SSP16	Witnesham	10	20	0.70		28.57	121	Yes
SSP17	Witnesham	10	20	0.79		25.32	106	Yes
SSP	Aldringham	20	40	1.66	1.328	30.12	142	Yes

9.5. In summary, on the basis of the limited information that we are aware of at this stage and taking reasonable assumptions in to account, all the residential sites are viable at the accepted densities set out in either Table A or B above.

9.6. Table C sets out the commercial site assessments – both are also considered viable albeit that this assessment is subject to a number of caveats as set out in 9.4 above

Table C – Assessment of viability of commercial sites

Scheme reference	Location	HEC	% Target Land Value	Viable?
SSP18	Ransomes	30	123	Yes
FFP4	Felixstowe Walton – commercial element only [6]	1.25	123	

[6] This site was assessed on the basis of 3 different land uses. The commercial element is included in this Table- the 2 other elements are residential and included in Table A

Appendix A

Sites

Further details on each of these sites can be found within the Site Allocations and Area Specific Policies DPD available at http://www.suffolkcoastal.gov.uk/yourdistrict/planning/policy/local-plan/site-allocations-and-area-specific-policies/preferred-options-consultation-now-closed/

and Felixstowe Peninsula AAP available at http://www.suffolkcoastal.gov.uk/assets/Documents/District/Planning-policy/Local-Plan/Felixstowe-AAP-Preferred-Options-FINAL-low-res.pdf

<table>
<tr><th>Scheme reference</th><th>Location</th><th>Type</th><th></th></tr>
<tr><td>SSP3</td><td>Aldeburgh</td><td>Residential – part of site intended for use as a Care Home</td><td rowspan="17">Further details within the Site Allocations and Area Specific Policies DPD</td></tr>
<tr><td>SSP4</td><td>Badingham</td><td>Residential</td></tr>
<tr><td>SSP5</td><td>Benhall</td><td>Residential</td></tr>
<tr><td>SSP7</td><td>Dennington</td><td>Residential</td></tr>
<tr><td>SSP8</td><td>Kelsale</td><td>Residential</td></tr>
<tr><td>SSP9</td><td>Orford</td><td>Residential</td></tr>
<tr><td>SSP12</td><td>Saxmundham</td><td>Residential</td></tr>
<tr><td>SSP13</td><td>Thorpness</td><td>Residential</td></tr>
<tr><td>SSP14</td><td>Westerfield</td><td>Residential</td></tr>
<tr><td>SSP15</td><td>Westerfield</td><td>Residential</td></tr>
<tr><td>SSP16</td><td>Witnesham</td><td>Residential</td></tr>
<tr><td>SSP17</td><td>Witnesham</td><td>Residential</td></tr>
<tr><td>SSP18</td><td>Ransomes</td><td>Commercial</td></tr>
<tr><td>SSP</td><td>Aldringham</td><td>Residential</td></tr>
<tr><td>SSP</td><td>Hatcheson</td><td>Residential</td></tr>
<tr><td>SSP</td><td>Rendlesham</td><td>Residential</td></tr>
<tr><td>SSP</td><td>Shottisham</td><td>Residential</td></tr>
<tr><td>FFP3</td><td>Felixstowe</td><td>Residential</td><td rowspan="6">Further details within the Felixstowe Peninsula AAP</td></tr>
<tr><td>FFP4</td><td>Felixstowe</td><td>Residential and commercial</td></tr>
<tr><td>FFP5</td><td>Felixstowe</td><td>Residential</td></tr>
<tr><td>FFP6</td><td>Trimley</td><td>Residential</td></tr>
<tr><td>FFP7</td><td>Trimley</td><td>Residential</td></tr>
<tr><td>FFP8</td><td>Trimley</td><td>Residential</td></tr>
</table>

Appendix B

Attendees at consultation event held on 4th February 2016 at SCDC offices

Promoters

Steven Bainbridge	Evolution Town Planning
Simon Bryan	Hopkins Homes
Michael Cordle	
Alex Cox	Bidwells
Sam Metson	Bidwells
James Tanner	Hollins
Neil Ward	NWA Planning

SCDC planning policy officers

Mark Edgerley

Stephen Brown

Other (authors of this report)

Martin Aust

Jenny Mayne

Appendix C

Abbreviations used in this report

AAP	Area Action Plan
BLV	Benchmark Land Value
DPD	Development Plan Document
EVA	Economic Viability Assessment
GIFA	Gross Internal Floor Area
RICS	Royal Institution of Chartered Surveyors
RLV	Residual Land Value
SCDC	Suffolk Coastal District Council
TLV	Threshold Land Value

Appendix D

Community Infrastructure Levy (CIL) value areas