

Interim Report

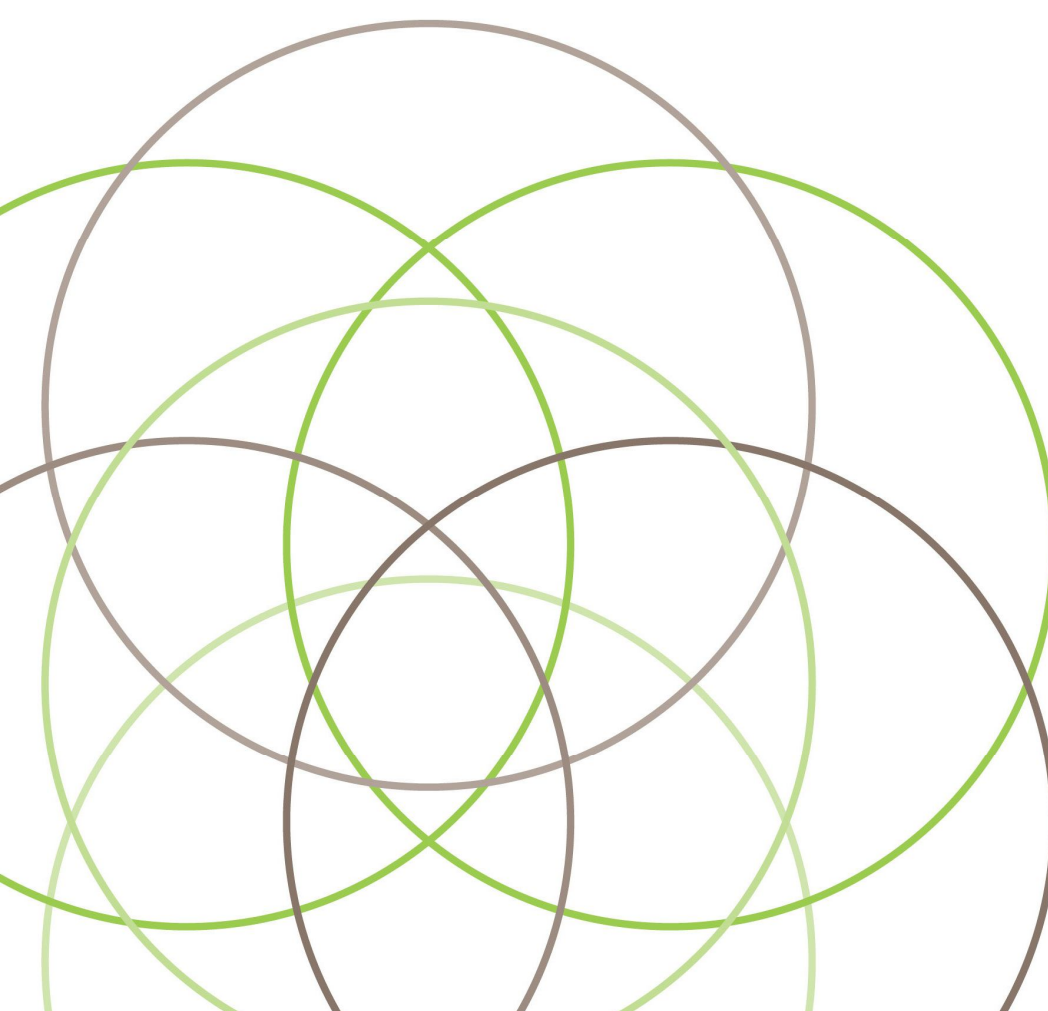
Local Plan Viability –
Residential Options Viability
Interim Report (One)

Harborough District Council



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Executive Summary

- ES 1 AspinallVerdi has been appointed by Harborough District Council to provide economic viability advice in respect of the preparation of a new Local Plan. The purpose of this report is to inform the viability of the alternative options. This is the first stage and further work will follow to appraise the viability of the preferred option and to inform a decision on whether or not to introduce a Community Infrastructure Levy (CIL).
- ES 2 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, Statutory Regulations and guidance (see section 2).

Local Plan Context

- ES 3 As a starting point for appraising policies for the emerging Local Plan we have had regard to the current adopted development plan for Harborough, principally the Core Strategy (2006 – 2028) which was adopted in November 2011.
- ES 4 The current housing policy (Policy CS3: Delivering Housing Choice and Affordability), requires that a minimum of 40% of the total number of dwellings will be affordable within the two highest value sub-market areas of Harborough Rural South West and Harborough Rural North and Central (see Figure 3.1). In the remaining three sub-market areas (i.e. Lutterworth, Market Harborough and Blaby Border Settlements), a minimum of 30% of the total number of dwellings will be affordable.
- ES 5 In addition to the above affordable housing requirements, the Council (together with Leicestershire County Council) has various requirements for planning obligations as set out in the HDC Planning Obligations Supplementary Planning Document January 2016 which is due to be adopted in May/June 2016. This includes: Community Facilities, Open Space, Sport and Recreation Provision, Education*, Highways* and Transportation, Library Services*, Recycling and Waste* (Including Civic Amenity Sites), Health Care*, Policing and Fire and Rescue, and Flood Control and Sustainable Drainage (*County Council services). The SPD requires that each development scheme be 'determined by individual assessment'. For the purposes of our appraisal we have therefore excluded site specific S106 obligations and applied a draft CIL rate of £100 psm. However, the SDA (Strategic Development Area) sites all have significant site specific S106 infrastructure and therefore we have included these sums and no CIL.

Methodology

ES 6 In order to appraise the viability of the new Local Plan alternative options we have used the Residual Land Value (RLV) methodology for the SDA sites and a selection of hypothetical typologies (see Appendix 2) and compared this to the Threshold Land Value (TLV) i.e. the amount a willing landowner might be tempted to release land for development. This is in accordance with best practice and other guidance from the Harman Report¹ and the RICS². This approach is summarised in Figures 4.1 and 4.2.

Residential Assumptions

ES 7 At this stage we have focussed on general needs (C3) housing and further work will be required in respect of more specialist housing (e.g. extra-care apartments, starter homes etc.) and commercial uses (in terms of CIL).

ES 8 As part of our analysis we have reviewed a sample of 19 residential development schemes provided by the Council together with a further 10 schemes where AspinallVerdi has appraised the economic viability acting for the Council. This is to augment the policy evidence base (e.g. SHMA etc.) with 'actual' information in terms of development density, unit mix, land values and profit etc. We have also had regard to the economic viability appraisal for the Airfield Farm (SDA) at Market Harborough.

ES 9 We have undertaken a review of residential market activity in order to understand the characteristics of the housing market zones. This has involved reviewing Land Registry data for the value new and second hand units together with asking price data from Rightmove and Zoopla etc. For the purposes of our viability appraisal we have used the following open market sales (OMS) values –

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

² RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012

| Housing Zones | Postcodes | 1 Bed Flat | 2 Bed Flat | 2 Bed House | 3 Bed House | 4 Bed House | 5 Bed House |
|--------------------------|--|------------|------------|-------------|-------------|-------------|-------------|
| Blaby Border Settlements | LE9 4; LE9 3; LE9 6; LE9 1; LE8 6; LE8 5; LE8 8 | £120,000 | £130,000 | £180,000 | £210,000 | £240,000 | £290,000 |
| Lutterworth | LE174; (incl. Lutterworth SDA) | £155,000 | £170,000 | £210,000 | £245,000 | £290,000 | £370,000 |
| Market Harborough | LE16 7, LE16 9 | £160,000 | £175,000 | £220,000 | £250,000 | £340,000 | £430,000 |
| Rural | LE10 3; LE17 5; LE17 6; CV23 0; NN6 6; LE16 9; LE8 0; LE18 3; LE8 9; LE2 4; LE2 2; LE7 9; LE14 2; LE15 8; LE15 9; LE16 8 (incl. Kibworth SDAs) | £170,000 | £185,000 | £230,000 | £265,000 | £375,000 | £450,000 |
| Scraptoft SDA | LE7 9 (part only, having regard to Leicester postcodes LE5 1; LE5 2; and LE5 6 and also asking prices in Scraptoft, Bushby and Thurnby) | £125,000 | £130,000 | £185,000 | £220,000 | £260,000 | £320,000 |

Table 5.2 – OMS Value Assumptions³

- ES 10 A detailed Residential Market Analysis report is appended (Appendix 1). It is important to note that there is a considerable range in values across the District and within the zones (housing market areas) depending on site specific characteristics, location, size and specification etc. These values should be subject to industry consultation at the next stage.
- ES 11 In addition to the above OMS values we have applied Affordable Rent at 45% of market value and Intermediate Housing at 60% of market value based on a 60 / 40 split between Affordable Rent and Intermediate housing respectively. Again, this needs to be the subject of further consultation with Registered Providers.
- ES 12 For the purposes of our Economic Viability Appraisal (EVA) we have adopted industry standard assumptions of 20% profit on the private housing and 6% on the on-site affordable housing (where applicable). It is important to note that CIL (and for that matter Affordable Housing requirements) should not be set right up to the margins of viability and in this respect evidence shows that in certain circumstances developers will agree lower profit margins in order to

³ 160405 Harborough Values for Appraisal_v6

secure planning permission and generate turnover (see profit sensitivity analyses within the appendices).

ES 13 We have reviewed the development land market for land values in Harborough. This includes land transactional information, land values data from the sample of site specific EVA's and details of asking values for land on the market. This is contained within the separate Residential Market Analysis paper (Appendix 1).

ES 14 We have discounted current market values by 25% to allow for emerging Local Plan policies in accordance with the Mayor of London CIL, Greater Norwich CIL and Sandwell CIL examinations (see section 4 below). For the purposes of our viability appraisal we have used the following Market Values (MV) and Threshold Land Values (TLV) –

| Housing Market Zone | Typology | MV (per acre) | MV (per ha) | MV > TLV discount | TLV (per acre) | TLV (per ha) |
|---|---------------------------------|---------------|-------------|-------------------|-----------------|-----------------|
| Blaby Border Settlements | Urban Fringe – greenfield | £350,000 | £864,850 | 25% | £262,500 | £648,638 |
| Lutterworth (including Lutterworth SDA) | Urban Fringe – greenfield | £400,000 | £988,400 | 25% | £300,000 | £741,300 |
| Market Harborough | Urban Fringe – greenfield | £450,000 | £1,111,950 | 25% | £337,500 | £833,963 |
| Rural (including Kibworth SDAs) | Edge of Settlement – greenfield | £450,000 | £1,111,950 | 25% | £337,500 | £833,963 |
| Average | | | | | £309,375 | £764,466 |

Table 5.7 – Land Value Assumptions

ES 15 It is important that these (and all) assumptions are consulted upon and more comparable land transaction information is compiled from the development industry and other stakeholders active in the land market. These can then be refined at the next stage.

SDA Viability Results

ES 16 The results of our appraisal for the SDA sites are set out below –

| | 1. Lutterworth SDA | 2. Kibworth N & E SDA | 3. Kibworth NW SDA | 4. Scraftoft SDA |
|--|--------------------|-----------------------|--------------------|--------------------------|
| Site Area (net residential development) (ha) | 84.50 | 50.28 | 34.91 | 45.94 |
| Development density (dph) | 32 | 32 | 32 | 32 |
| Total No. Units | 2,704 | 1,609 | 1,117 | 1,470 |
| Affordable Housing (%) | 30% | 40% | 40% | 40% |
| CIL (£ psm) | £0.00 | £0.00 | £0.00 | £0.00 |
| Site Specific S106 (£ per unit) | £5,780 | £12,224 | £16,920 | £9,126 |
| Infrastructure Costs (£ per unit) | £15,468 | £9,594 | £22,097 | £17,499 |
| RLV (£/ha) | £726,827 | £1,035,926 | £514,408 | -£162,053 |
| RLV (£/acre) | £294,143 | £419,233 | £208,178 | -£65,582 |
| RLV comments | Viable | Viable | Viable | Fundamentally Not Viable |
| TLV (£/ha) | £741,300 | £833,963 | £833,963 | £648,638 |
| TLV (£/acre) | £300,000 | £337,500 | £337,500 | £262,500 |
| Surplus/Deficit (£/ha) | -£14,473 | £201,963 | -£319,555 | -£810,691 |
| Surplus/Deficit (£/acre) | -£5,857 | £81,733 | -£129,322 | -£328,082 |
| TLV comments | Not Viable | Viable | Not Viable | Fundamentally Not Viable |

Table 5.13 – SDA Viability Results⁴

ES 17 Based on the above assumptions all the SDAs are viable (in that they have a positive residual land value), except for Scraftoft which has a negative RLV. The ranking in terms of absolute viability is as follows -

- Kibworth North & East SDA is the most viable with a RLV of £419,233 per acre – but note that this has the least amount of infrastructure per unit (£9,594);
- Lutterworth is the next most viable SDA with a RLV of £294,143 per acre – but this has only 30% affordable housing;
- followed by Kibworth North West with a RLV of £208,178 per acre – 40% affordable housing and the most amount of infrastructure per unit (£22,097);

⁴ 160406 Harborough AH appraisals_v5

- Scaptoft SDA is the least viable with a negative RLV of -£65,582 per acre – due the high infrastructure costs (£17,499 per unit) and relatively low OMS.
- ES 18 However, it is important to note that these are all based on high level assumptions. The open market sales (OMS) values are based on the average current market values in the area and it is highly likely that the SDA's of this size and scale (1,117 – 2,704 units) would create their own markets. Note also that the construction cost assumptions are consistent across the entire Harborough area and the two SDA's with the lowest RLV are carrying the highest infrastructure cost per unit (£22,097 and £17,499). It is important that further comparison and assessment takes place to confirm these infrastructure and other costs.
- ES 19 In accordance with best practice for the purposes of Plan Viability (see Figure 4.2) it is important to compare the absolute RLV with the hypothetical TLV that a 'willing landowner' would be prepared to sell their land for development. This takes into consideration the TLV (i.e. $RLV - TLV$) to establish whether a site is viable in planning policy terms.
- ES 20 After TLV (i.e. $RLV - TLV$), the following SDA site is viable –
- Kibworth North & East at £81,733 per acre surplus.
- ES 21 The other SDA sites all fall into a deficit after TLV (i.e. the TLV is greater than the RLV), as follows -
- Lutterworth SDA goes from being marginally viable (i.e. positive RLV) to not viable for plan making purposes i.e. -£5,857 per acre – however this is only a very small deficit;
 - Kibworth North West SDA goes from being marginally viable (i.e. positive RLV) to not viable for plan making purposes i.e. -£129,322 per acre; and
 - Scaptoft SDA goes from a negative RLV to even more of a deficit for plan making purposes i.e. -£328,082 per acre – this is the largest deficit.
- ES 22 It is important to note that the appraisals are very sensitive to changes in: the value and cost assumptions; the TLV assumed; and the allocation of the 'development surplus' between landowner, developers and the LPA in terms of S106. For example, the Kibworth North West SDA appraisal has a GDV of some £232 million and a total cost of £211 million, including profit of £39 million. The RLV is £18 million, so notwithstanding the hypothetical assumption in respect of TLV, these are substantial sums and small percentage changes to the variables have a dramatic effect on viability. This can be seen on the appraisals and sensitivities appended (Appendix 4).

Hypothetical Typologies Viability Results

ES 23 In addition to the above SDA's we have appraised a series of hypothetical schemes in other areas of the District e.g. Market Harborough and the Rural Hinterland (see Typologies Matrix – Appendix 2). The table below summarises the results of our appraisal for the hypothetical sites –

| | 5. Blaby Border | 6. Lutterworth | 7. Market Harborough | 8. Rural Hinterland | 9. Rural Hinterland |
|--|-----------------|----------------|----------------------|---------------------|---------------------|
| Site Area (net residential development) (ha) | 3.13 | 3.13 | 3.13 | 0.94 | 0.25 |
| Development density (dph) | 32 | 32 | 32 | 32 | 32 |
| Total No. Units | 100 | 100 | 100 | 30 | 8 |
| Affordable Housing (%) | 30% | 30% | 30% | 40% | 40% |
| CIL (£ psm) | £100.00 | £100.00 | £100.00 | £100.00 | £100.00 |
| Site Specific S106 (£ per unit) | £0 | £0 | £0 | £0 | £0 |
| Infrastructure Costs (£ per unit) | £0 | £0 | £0 | £0 | £0 |
| RLV (£/ha) | £498,497 | £1,170,620 | £1,439,685 | £1,525,368 | £1,560,434 |
| RLV (£/acre) | £201,739 | £473,744 | £582,633 | £617,308 | £631,499 |
| RLV comments | Viable | Viable | Viable | Viable | Viable |
| TLV (£/ha) | £648,638 | £741,300 | £833,963 | £833,963 | £833,963 |
| TLV (£/acre) | £262,500 | £300,000 | £337,500 | £337,500 | £337,500 |
| Surplus/Deficit (£/ha) | £-150,140 | £429,320 | £605,723 | £691,406 | £726,472 |
| Surplus/Deficit (£/acre) | £-60,761 | £173,744 | £245,133 | £279,808 | £293,999 |
| TLV comments | Not Viable | Viable | Viable | Viable | Viable |

Table 5.14 – Hypothetical Typologies Results⁵

ES 24 As can be seen from the above table, all of the schemes are viable in that they deliver a positive RLV based on the relevant affordable housing percentage, £100 psm CIL and 20% developer's profit.

⁵ 160406 Harborough AH appraisals_v5

- ES 25 However, the Blaby Border typology (scheme 5) is not viable after the assumed TLV (i.e. RLV of £201,739, less TLV £262,500 = deficit £60,761 per acre). This is due to this zone having the lowest OMS values (relative to constant build rates). However, as described above the model is very sensitive to appraisal inputs including: profit, TLV, density etc. (see sensitivity analysis).
- ES 26 It is important to have regard to these sensitivities, particularly on the larger schemes where the absolute values are large and small changes to percentage based assumptions have a significant impact. In addition it is important that the assumptions contained herein are tested further and consulted upon at the next stage(s).

Further Work

- ES 27 Paragraph: 018 (Reference ID: 25-018-20140612) of the PPG website requires that as background evidence, charging authorities should provide information about the amount of funding collected in recent years through section 106 agreements. This should include information on the extent to which their affordable housing and other targets have been met.
- ES 28 Note that we have only had opportunity to review a small sample of 19 residential development schemes in deriving the hypothetical typologies and these should be consulted upon and reviewed at the next stage in the absence of any further development monitoring data.
- ES 29 Note that at this stage we have not carried out any specific industry or stakeholder consultation with developers, landowner agents, registered providers etc. It is important that this takes place at the next stage. We would particularly welcome specific evidence from industry in respect of OMS values, affordable housing transfer values, cost assumptions and land value assumptions.

1 Introduction

- 1.2 AspinallVerdi has been appointed by Harborough District Council to provide economic viability advice in respect of the preparation of a new Local Plan.
- 1.3 The new Local Plan will replace the existing 2011 Core Strategy, and will govern planning across the District up to 2031⁶. In this respect we understand that in March and April 2013 the Council consulted on the initial scope of the new Local Plan⁷. This has led to the current Options Consultation stage which includes 9 alternative growth options for the distribution of new homes and jobs.⁸
- 1.4 The next stage is to assess the alternative options in light of the consultation responses and national policy and guidance. This requires that the Plan be viable and hence the requirement for an Economic Viability Assessment. The time table is to have an initial assessment of the alternative options by the end of March 2016 in order to enable work between then and July 2016 to inform the selection of a single preferred option, followed by pre-submission consultation in November - December 2016 with submission to the Secretary of State in March 2017 and an Examination in Public in June 2017. This would enable Adoption of the new Local Plan by (say) November 2017.
- 1.5 This approach of considering the viability early in the plan-making process enables viability to be embedded in the process to inform the Preferred Option and as well as Plan-wide policies such as affordable housing. It will also inform a decision on whether or not to introduce a Community Infrastructure Levy (CIL).
- 1.6 This is our first report (Stage 1). It is an interim report based on a 'high level' viability assessment of each of the residential development options in terms of the ability of that option to deliver the likely development infrastructure, expected range of community infrastructure and affordable housing. It includes an early assessment of whether there may be a case for CIL on residential development.
- 1.7 The remainder of this report is structured as follows –
- | | |
|------------------------------------|--|
| Section 2 – Statutory Requirements | This section sets out the statutory requirements for the Local Plan and CIL viability including the NPPF, CIL Regulations and PPG website. |
| Section 3 – Local Plan Context | This section sets out the details of the current adopted Local Plan, the existing evidence base, and the |

⁶ A New Local Plan for Harborough Options Consultation Paper September 2015, Forward

⁷ A New Local Plan for Harborough Options Consultation Paper September 2015, para 6

⁸ A New Local Plan for Harborough Options Consultation Paper September 2015, para 7

emerging Local Plan policies which will have a direct impact on viability.

Section 4 – Viability Assessment Method

This section describes our generic methodology for appraising the viability of development which is based on the residual approach as required by guidance and best practice.

Sections 5 - Residential

This section sets out our analysis of the residential development market and typologies across the District and our appraisal assumptions and viability results.

2 Statutory Requirements

- 2.1 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, Statutory Regulations and guidance.

NPPF

- 2.2 The National Planning Policy Framework sets out the Government's planning policies for England and how these are expected to be applied⁹. It was first published on 27 March 2012 and is now online (see below).

Paragraph 173

- 2.3 The National Planning Policy Framework (NPPF) places viability and deliverability at the fore. Paragraph 173 deals explicitly with ensuring viability and deliverability. Paragraph 173 states that –

*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**.¹⁰ (our emphasis)*

Affordable Housing

- 2.4 In terms of affordable housing, the NPPF specifically requires that local planning authorities should –

use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies set out in this Framework, including identifying key sites which are critical to the delivery of the housing strategy over the plan period;¹¹

⁹ <http://planningguidance.communities.gov.uk/blog/policy/introduction/> (accessed 11/1/16)

¹⁰ Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 173

¹¹ Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 47

Planning Obligations

- 2.5 Finally the NPPF sets the context for planning obligations (S106 Agreements) following the introduction of CIL. The NPPF sets out the following tests –

Planning obligations should only be sought where they meet all of the following tests¹² -

- *necessary to make the development acceptable in planning terms;*
- *directly related to the development; and*
- *fairly and reasonably related in scale and kind to the development.*

- 2.6 It is important to note that the CIL Regulations limit the use of planning obligations to a maximum of five S106 agreements in order to limit the use of pooled S106's to fund infrastructure and (therefore) encourage the uptake of CIL¹³.

PPG Website

- 2.7 On 6 March 2014 the Department for Communities and Local Government (DCLG) launched this planning practice guidance web-based resource¹⁴. This enables all planning practice guidance to be available entirely on-line. This contains two important sections for this report –

- Community Infrastructure Levy and
- Viability.

- 2.8 We do not proposed to rehearse every paragraph of this guidance here, but we set out below the key guidance.

Viability

- 2.9 The National Planning Policy Framework says that plans should be deliverable and that the sites and 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.¹⁵
- 2.10 The Community Infrastructure Levy has separate guidance on viability and charge setting. However, the principles for understanding viability set out in this document will also be relevant for Community Infrastructure Levy evidence collection. Above all, consistency is required.¹⁶

¹² Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 204

¹³ The Community Infrastructure Levy Regulations 2010 in force from 6 April 2010 under section 222(2)(b) of the Planning Act 2008, Regulation 123

¹⁴ <http://planningguidance.communities.gov.uk/about/> (accessed 11/1/16)

¹⁵ Paragraph: 001 Reference ID: 10-001-20140306 (accessed 12/1/16)

¹⁶ Paragraph: 003 Reference ID: 10-003-20140306 (accessed 12/1/16)

Authorities should seek to align the preparation of their Community Infrastructure Levy Charging Schedules and their Local Plans as far as practical.¹⁷

- 2.11 Development of plan policies should be iterative – with draft policies tested against evidence of the likely ability of the market to deliver the plan’s policies, and revised as part of a dynamic process.¹⁸ – This is what Harborough are doing with this viability assessment at the alternative options stage.
- 2.12 Evidence should be **proportionate** to ensure plans are underpinned by a broad understanding of viability. Greater detail may be necessary in areas of known marginal viability or where the evidence suggests that viability might be an issue – for example in relation to policies for strategic sites which require high infrastructure investment.¹⁹ (our emphasis)
- 2.13 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.²⁰ (our emphasis) – In this respect we have set out our rationale for the site typologies for each use within the relevant section below.
- 2.14 Plan makers should **not plan to the margin of viability but should allow for a buffer** to respond to changing markets and to avoid the need for frequent plan updating. **Current costs and values** should be considered when assessing the viability of plan policy. Policies should be deliverable and should not be based on an expectation of future rises in values at least for the first five years of the plan period. This will help to ensure realism and avoid complicating the assessment with uncertain judgements about the future. Where any relevant future change to regulation or policy (either national or local) is known, any likely impact on current costs should be considered.²¹ (our emphasis)
- 2.15 Local Plan policies should reflect **the desirability of re-using brownfield land**, and the fact that brownfield land is often more expensive to develop. Where the cost of land is a major barrier, landowners should be engaged in considering options to secure the successful development of sites. Particular consideration should also be given to Local Plan policies on planning obligations, design, density and infrastructure investment, as well as in setting the Community Infrastructure Levy, **to promote the viability of brownfield sites** across the local area.²² (our emphasis)

¹⁷ Paragraph: 004 Reference ID: 10-004-20140306 (accessed 12/1/16)

¹⁸ Paragraph: 005 Reference ID: 10-005-20140306 (accessed 12/1/16)

¹⁹ Paragraph: 005 Reference ID: 10-005-20140306 (accessed 12/1/16)

²⁰ Paragraph: 006 Reference ID: 10-006-20140306 (accessed 12/1/16)

²¹ Paragraph: 008 Reference ID: 10-008-20140306 (accessed 12/1/16)

²² Paragraph: 025 Reference ID: 10-025-20140306 (accessed 12/1/16)

- 2.16 **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.²³ (our emphasis)
- 2.17 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.²⁴ (our emphasis)
- 2.18 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.²⁵ (our emphasis)

Community Infrastructure Levy

- 2.19 The guidance on the Planning Practice Guidance website replaces all previous standalone guidance. Whilst the Council has not yet decided whether it wishes to implement CIL, the guidance is relevant as infrastructure will still need to be funded – whether through CIL or otherwise.
- 2.20 Charging authorities should set a [CIL] rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan... They will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike **an appropriate balance between the**

²³ Paragraph: 014 Reference ID: 10-014-20140306 (accessed 12/1/16)

²⁴ Paragraph: 015 Reference ID: 10-015-20140306 (accessed 12/1/16)

²⁵ Paragraph: 015 Reference ID: 10-015-20140306 (accessed 12/1/16)

desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.²⁶ (our emphasis)

2.21 In this respect, CIL **Regulation 14** requires that -

a charging authority must strike what appears to the charging authority to be an appropriate balance between —

(a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and

(b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.²⁷

2.22 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.²⁸ (our emphasis)

2.23 A charging authority should be able to explain how their proposed levy rate or rates will contribute towards the implementation of the relevant Plan..., and support development across their area. Charging authorities will need to summarise their economic viability evidence [i.e. this report(s)]. As background evidence, the charging authority should also provide information about the amount of ***funding collected in recent years through section 106 agreements***. This should include information on ***the extent to which their affordable housing and other targets have been met***.²⁹ (our emphasis)

2.24 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.³⁰ (our emphasis)

2.25 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 ... relies,

²⁶ Paragraph: 008 Reference ID: 25-008-20140612 (accessed 12/1/16)

²⁷ The Community Infrastructure Levy Regulations 2010, 6 April 2010 under section 222(2)(b) of the Planning Act 2008 Regulation 14

²⁸ Paragraph: 009 Reference ID: 25-009-20140612 (accessed 12/1/16)

²⁹ Paragraph: 018 Reference ID: 25-018-20140612 (accessed 12/1/16)

³⁰ Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)

and those sites where the impact of the levy on economic viability is likely to be most significant (such as **brownfield sites**).³¹ (our emphasis)

- 2.26 Charging authorities that decide to set **differential rates** may need to undertake more fine-grained sampling, on a higher proportion of total sites, to help them to estimate the boundaries for their differential rates. Fine-grained sampling is also likely to be necessary where they wish to differentiate between categories or scales of intended use.³² (our emphasis)
- 2.27 The focus should be in particular on **strategic sites** on which the relevant Plan relies and those sites (such as **brownfield sites**) where the impact of the levy is likely to be most significant.³³ (our emphasis)
- 2.28 A charging authority's proposed rate or rates should be reasonable, given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence. For example, this might not be appropriate if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism. It would be **appropriate to ensure that a 'buffer' or margin is included**, so that the levy rate is able to support development when economic circumstances adjust.³⁴ (our emphasis)
- 2.29 The regulations allow charging authorities to apply **differential rates** in a flexible way, to help ensure the viability of development is not put at risk. .. Differential rates should not be used as a means to deliver policy objectives. Differential rates may be appropriate in relation to -
- geographical zones within the charging authority's boundary
 - types of development; and/or
 - scales of development.³⁵ (our emphasis)
- 2.30 It is important to note that the CIL Regulations refer to '**use**' here rather than '**type**' of development. Regulation 13 states that –

A charging authority may set differential rates—

- (a) for different zones in which development would be situated;*
- (b) by reference to different intended **uses** of development.*
- (c) by reference to the intended gross internal area of development;*
- (d) by reference to the intended number of dwellings or units to be constructed or provided under a planning permission.³⁶*

³¹ Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)

³² Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)

³³ Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)

³⁴ Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)

³⁵ Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)

³⁶ The Community Infrastructure Levy Regulations 2010 and (Amendment) Regulations 2014

- 2.31 This is important, because development on brownfield land could be considered a ‘type’ of development, but it is not a ‘use’. Paragraph: 022 Reference ID: 25-022-20140612 refers to ‘How can rates be set by type of use?’ This states that ‘the definition of “use” for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987. Therefore it is not entirely clear whether differential rates can or cannot be set by reference to brownfield (previously developed land) typologies, however, in our experience most Charging Authorities are interpreting ‘type’ to mean ‘use’ as in the Regulations.
- 2.32 A charging authority that plans to set differential rates should seek to **avoid undue complexity**. Charging schedules with differential rates should not have a disproportionate impact on particular sectors or specialist forms of development. Charging authorities should consider the views of developers at an early stage.³⁷ (our emphasis)
- 2.33 If the evidence shows that the area includes a zone, which could be a strategic site, which has low, very low or zero viability, the charging authority should consider setting a low or zero levy rate in that area. The same principle should apply where the evidence shows similarly low viability for particular types and/or scales of development.³⁸ (our emphasis)

³⁷ Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)

³⁸ Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)

3 Local Plan Context

3.1 This section of our report sets out the Local Plan context for Harborough.

Current Adopted Local Plan

3.2 The current adopted development plan for Harborough is the Core Strategy (2006 – 2028) which was adopted in November 2011. This sets out the strategic objectives for the District.

3.3 Key issues for the District are set out and include -

- P1 Ensuring delivery of new housing to accommodate population growth does not impact adversely on existing settlement and landscape character;
- P2 Securing delivery of appropriate affordable housing, particularly in the more rural areas;
- P3 Providing an appropriate range of housing to enable young people and older people to stay in rural settlements;

3.4 In accordance with Policy CS2: 'Delivering New Housing' the overall housing provision of at least 7,700 dwellings between 2006-2028 will be distributed as follows -

- Market Harborough at least 3,300 dwellings
- Leicester PUA (Scraptoft, Thurnby and Bushby) at least 880 dwellings
- Lutterworth at least 700 dwellings
- Broughton Astley at least 400 dwellings
- Rural Centres and selected rural villages at least 2,420 dwellings.

Current Adopted Affordable Housing Policy

3.5 The current adopted affordable housing policy (Policy CS3: Delivering Housing Choice and Affordability), requires that a minimum of 40% of the total number of dwellings will be affordable within the two highest value sub-market areas of Harborough Rural South West and Harborough Rural North and Central (red and blue areas on the map). In the remaining three sub-market areas (i.e. Lutterworth, Market Harborough and Blaby Border Settlements), a minimum of 30% of the total number of dwellings will be affordable. This is illustrated on the following map (Figure 3.1).

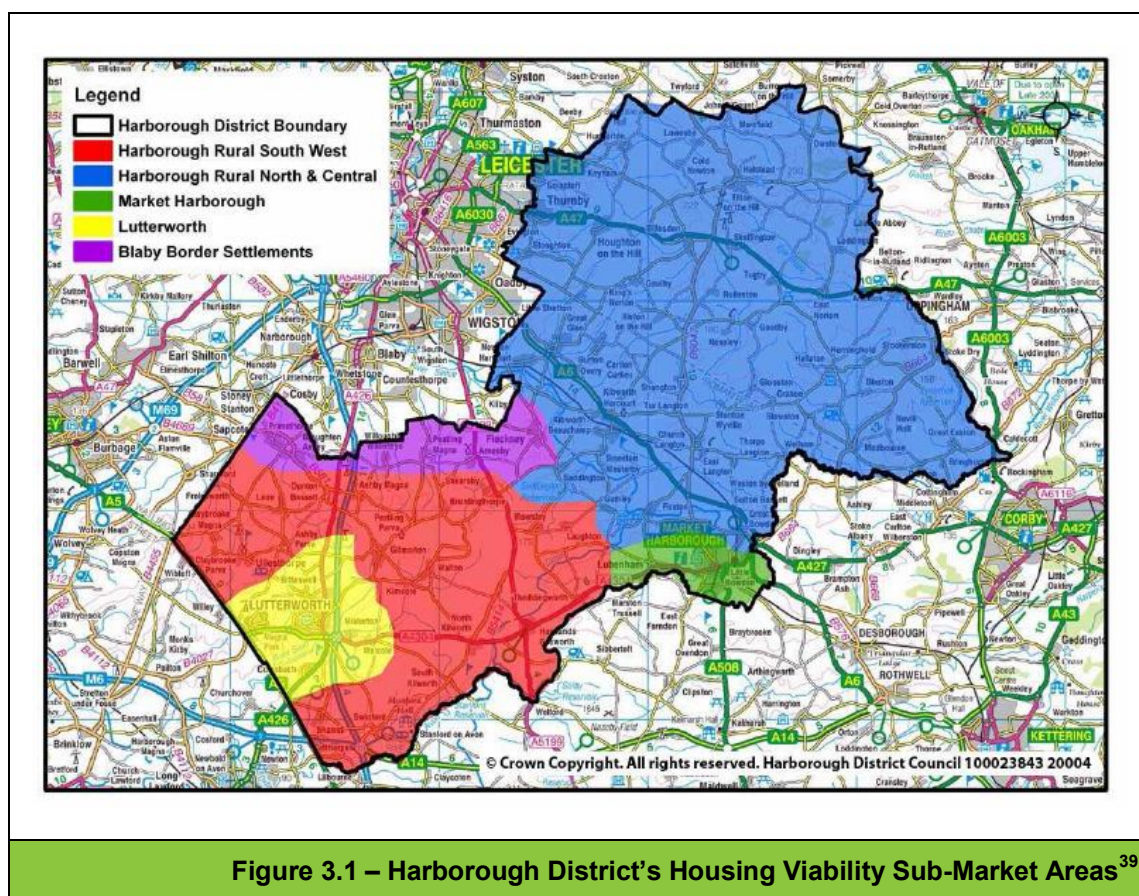


Figure 3.1 – Harborough District’s Housing Viability Sub-Market Areas³⁹

- 3.6 Affordable Housing will be provided on site in most cases, although provision off site or by way of a commuted sum will be allowed in exceptional circumstances or where it can be robustly justified.
- 3.7 The Council’s Affordable Housing Guidance Note (amended August 2015) sets out the requirements which is to seek Affordable Housing Contributions on all developments of **3 units** and above in accordance with Policy CS3 of the Adopted Core Strategy.
- 3.8 On proposals of 3 units and above: The benchmark housing mix profile we will aim to seek as referenced in SHMA 2014 at District level is as follows:
- 1 bed - 41%
 - 2 bed - 37%
 - 3 bed - 20%
 - 4+ beds - 2%

³⁹ Harborough District Local Development Framework, Core Strategy, 2006 – 2028, page 33

- 3.9 This is an indicative mix for planning purposes within the District. Individual site issues will influence housing mix on a particular development – This is intended to provide a basis for the kind of house types/sizes we should seek as a starting point in future development. Applicants are advised consult Harborough District's Housing Enabling and Community Infrastructure Officer at the earliest opportunity to discuss and agree site / locality specific
- 3.10 Harborough District's current tenure requirement is to seek in general terms a 60 / 40 split between rent (a percentage of which we would accept as Affordable Rent) and Intermediate housing respectively. However each site is assessed independently in meeting specific local housing need.
- 3.11 The affordable housing must comply with Homes & Communities Agency Quality Development Standards particularly in relation to space and floor areas as a minimum requirement.
- 3.12 The affordable housing is to be transferred to a partner Registered Provider (RP) at Open Market Values to be agreed between the developer and RP partner and approved by Harborough District Council.

Other Current Planning Obligations

- 3.13 Harborough District Council (together with Leicestershire County Council) has various requirements for planning obligations.
- 3.14 This is currently contained within the HDC Planning Obligations Guidance Note issued in September 2009 and the Affordable Housing Supplementary Planning Document 2006. However, these documents are being replaced by the HDC Planning Obligations Supplementary Planning Document January 2016 which is due to be adopted in May/June 2016. This will replace the aforementioned two documents and takes into account: the adoption of the Harborough District Core Strategy (2011); the Community Infrastructure Levy Regulations (2011); National Planning Policy Framework (2012); National Planning Practice Guidance (– revised November 2014); Leicestershire Developer Contributions Protocol 2015 and Leicestershire County Council Planning Obligations Policy 2014.⁴⁰
- 3.15 The SPD sets out the areas that are the subject of planning obligations (based on Policy CS2, CS12 and Appendix 2 of the Core Strategy) - ⁴¹
- Affordable Housing
 - Community Facilities
 - Open Space, Sport and Recreation Provision

⁴⁰ HDC Planning Obligations Supplementary Planning Document January 2016, para 1.1.3

⁴¹ HDC Planning Obligations Supplementary Planning Document January 2016, para 2.2.2

- Library Facilities Education
 - Highways and Transportation
 - Library Services and Facilities
 - Recycling and Waste (Including Civic Amenity Sites)
 - Health Care
 - Policing and Fire and Rescue
 - Flood control and sustainable drainage⁴²
- 3.16 Note that the County Council is responsible for the provision/commissioning of a range services including education, highways, transport, libraries, social care, public health and waste disposal.⁴³
- 3.17 Note also that the SPD makes specific reference to viability assessments – paragraph 4.5 -
- If the viability assessment is accepted as reasonable and shows that the development cannot proceed without reduced obligations, the Council may request lower contributions or no contributions for a particular site provided that the benefits of developing the site significantly outweigh the loss of planning obligations which were to make the development acceptable in planning terms⁴⁴.*
- The Council's practice is to seek to maintain, as far as possible, obligations towards community infrastructure and **adopt a more flexible approach towards the affordable housing component** (stock managed by social landlords) in order to assist in making the development viable. This may result in changes to the mix of the affordable housing component or look to, increase the numbers of smaller and cheaper market housing types (1 /2 bed properties) to help increase opportunities for private rented and first time buyers⁴⁵. (our emphasis)*
- 3.18 A summary of the current planning obligations requirements is set out on the following table (Table 3.2) -

⁴² HDC Planning Obligations Supplementary Planning Document January 2016, para 2.2.3

⁴³ HDC Planning Obligations Supplementary Planning Document January 2016, para 2.2.5

⁴⁴ HDC Planning Obligations Supplementary Planning Document January 2016, para 4.5.4

⁴⁵ HDC Planning Obligations Supplementary Planning Document January 2016, para 4.6.5

| Development type | Affordable Dwellings | Community Facilities | Open Space provision/ contribution | Health | Community Safety | Education | Highways | Civic Amenity | Libraries | Legal Fees | Monitoring Fees |
|---|------------------------------------|---|---|--|---|---|---------------------------------------|---|---|-------------------------|---|
| Small housing scheme (3 dw or under) | None | None | None | None | None | None | None | None | None | None | None |
| Medium housing scheme (3- 10 dw) | 30% (40% in specified rural areas) | £735 per dwelling where justified | As determined by individual assessment of existing provision and impact | As determined by individual assessment | As determined by individual assessment of capacity and impact | As determined by individual assessment of capacity and impact | As determined by transport assessment | As determined by individual assessment of capacity and impact | As determined by individual assessment of capacity and impact | HDC: £975 per agreement | None |
| Large housing scheme (11 dw +) | 30% (40% in specified rural areas) | £735 per dwelling where justified | As determined by individual assessment of existing provision and impact | As determined by individual assessment | As determined by individual assessment | As determined by individual assessment | As determined by transport assessment | As determined by individual assessment | As determined by individual assessment | HDC: £975 per agreement | Monitoring fee: determined by individual assessment |
| Strategic Development Area (1000 dwellings +) | 30% (40% in rural areas) | Land and contribution or direct provision | Direct provision on site as part of scheme | As determined by individual assessment | As determined by individual assessment | Direct provision on site as part of scheme | As determined by transport assessment | | | HDC: £975 per agreement | Monitoring fee: determined by individual assessment |
| Small business development (<1000m ²) | None | None | None | None | None | None | As determined by LCC Highways | None | None | HDC: £975 per agreement | None |
| Large business development (>1000m ²) | None | None | None | None | None | None | As determined by transport assessment | None | None | HDC: £975 per agreement | None |
| Retail development | None | None | None | None | None | None | As determined by transport assessment | None | None | HDC: £975 per agreement | None |

Table 3.2 – Planning Obligations Summary

Other Current Policy Requirements

- 3.19 The previous SPG⁴⁶ highlights that inefficient use of land should be avoided and that densities on all housing developments should make the best use of the land to promote a more sustainable pattern of development. The Strategic Housing Land Availability Technical Consultation Draft (June 2014) and Adopted Harborough Core Strategy uses the following minimum net density standards –

| Area | Density Applied |
|--|--------------------------|
| Sites within and adjacent to the Principal Shopping and Business Area of Market Harborough and Lutterworth | 40 dwellings per hectare |
| Sites elsewhere within the District | 30 dwellings per hectare |
| Table 3.3 – Residential Density | |

- 3.20 Harborough District Council currently has no specific policy requirements in terms of environmental design standards.

Existing Evidence Base

- 3.21 In this section we set out the available evidence from other key plan making documents.

SHMA

- 3.22 The Leicester and Leicestershire Strategic Housing Market Assessment (SHMA) was prepared by GL Hearn in June 2014 and provides an assessment of housing needs to 2031 and 2036, setting out an indication of the scale, mix and range of tenures that the local population is likely to need over the next 15 to 20 years.
- 3.23 The report sets out a number of housing need projections and recommends a level of objectively assessed housing need for the Leicester and Leicestershire area as well as for individual local authorities, including Harborough.
- 3.24 The study identifies a need for between 415-475 dwellings per annum within Harborough District between 2011 to 2031 and 400-460 per annum from 2011 to 2036.
- 3.25 With respect to Affordable Housing, and based on the assumption of 30% affordable housing delivery, the study provides the following guidance on affordable housing mix (Table 3.4) –

⁴⁶ SPG – Note 2 to the Harborough District Plan, Residential Development 19th March 2003)

| Size | % Mix |
|--|--------|
| 1 bed | 35-40% |
| 2 bed | 30-35% |
| 3 bed | 20-25% |
| 4 bed | 5-10% |
| Table 3.4 – Affordable Housing Needed in Harborough District 2011-2036⁴⁷ | |

- 3.26 The following table shows suggestions for the most appropriate mix of market housing. The majority of market demand is expected to be for two and three bed housing (Table 3.5) –

| Size | % Mix |
|--|--------|
| 1 bed | 5-10% |
| 2 bed | 35-40% |
| 3 bed | 35-40% |
| 4 bed | 15-20% |
| Table 3.5 – Market Housing Needed in Harborough District 2011-2036⁴⁸ | |

Leicestershire and Rutland CIL Viability Study (2013)

- 3.27 The Leicester, Leicestershire and Rutland CIL Viability Study was jointly commissioned by Leicester County Council for Blaby, Charnwood, Harborough, Hinckley and Bosworth, Leicester City, Melton, North West Leicestershire, Oadby and Wigston, and Rutland Councils. It was prepared by HDH Planning and Development in January 2013.
- 3.28 In the study a set of 16 residential and 13 non-residential development sites were modelled to represent those developments that are likely to come forward in Leicestershire and Rutland in the future and therefore may be able to contribute to infrastructure through the payment of CIL. From this set of sites particular site types were selected that are most representative within each local authority area. For each site a high level, financial development appraisal was carried out to assess the sites ability to pay CIL and the effect that CIL may have on development viability.

⁴⁷ Source: Leicester and Leicestershire SHMA (June 2014)

⁴⁸ Source: Leicester and Leicestershire SHMA (June 2014)

- 3.29 It was not the purpose of this study to set individual rates of CIL or to recommend them.
- 3.30 In terms of setting the threshold land value, this was defined as a sites worth in its current use plus an uplift of 20% to incentivise the owner to sell the land. It was recognised that this would not be sufficient in some situations and therefore a further £250,000 /ha was applied on greenfield sites (being those in agricultural and paddock uses). The following alternative land prices were adopted (Table 3.6) –

| Land typology | TLV (per ha) | TLV (per acre) |
|--|--------------|----------------|
| Agricultural Land | £25,000 | £10,117 |
| Paddock Land | £50,000 | £20,234 |
| Residential Land | £750,000 | £303,520 |
| Central Leicester (retail land) | £4,000,000 | £1,618,777 |
| Industrial Land (Leicester City and Oadby and Wigston) | £440,000 | £178,065 |
| Industrial Land Residual Area | £350,000 | £141,643 |

Table 3.6 – Threshold Land Values (HDH Planning and Development (January 2013))

Three Dragons Affordable Housing Viability Report (2009)

- 3.31 Three Dragons affordable housing viability report was commissioned by Harborough DC, Oadby and Wigston Borough Council, Leicester City Council, Blaby District Council and North West Leicestershire District Council to “.... prepare a joint Affordable Housing Viability Assessment (AHVA) compliant with PPS3 (paragraph 29). This will form part of the Evidence Base for their Local Development Frameworks (LDFs) and inform the development of Core Strategy Housing Policies.”
- 3.32 The study identified five sub market areas in Harborough District. The sub market areas are defined by prices by postcode sectors and are: Harborough Rural South West; Harborough Rural North and Central; Market Harborough; Lutterworth and Blaby Border Settlements.
- 3.33 The study also highlighted how market values vary significantly between these areas. These differences in market values were reflected in differences in residual values (for the different scenarios tested). It found that the residual value will vary as result of both location and adopted density.

- 3.34 A key finding was that the District has a broad split between the towns (Market Harborough, Lutterworth and the Blaby Border settlements) at the upper value range and the more rural locations including Harborough Rural South West and Harborough Rural North and Central.

Emerging Local Plan Options

- 3.35 The emerging Local Plan will set out planning policies in the District for the period to 2031⁴⁹⁵⁰.
- 3.36 The Council is currently at the alternative options stage. New Local Plan policies have not currently been formulated. This will be done between now and the finalisation of the pre-submission draft in October 2016. At this point we will review the viability appraisal to ensure that there are no new Local Plan policies that have an adverse impact on viability.
- 3.37 In the meantime our interim residential viability advice is based upon the following policies (Table 3.7) –

| Policy | Assumptions |
|--|---|
| Core Strategy policy (CS3) Delivering Housing Choice and Affordability), | A minimum of 40% of the total number of dwellings will be affordable within the two highest value sub-market areas of Harborough Rural South West and Harborough Rural North and Central. In the remaining three sub-market areas (i.e. Lutterworth, Market Harborough and Blaby Border Settlements), a minimum of 30% of the total number of dwellings will be affordable. |
| HDC Planning Obligations Supplementary Planning Document January 2016 | We have assumed various site specific S106 obligations in respect of the SDA scheme (see Appendix 3) (and £0 CIL as a consequence). |
| CIL | For the other hypothetical typologies we have assumed £100 psm CIL (and no other site specific S106 obligations). |
| Table 3.7 – Emerging Local Plan Policy Assumptions Appraised | |

Adjacent Authorities' Policies

- 3.38 The property market for development is a continuum across boundaries within Leicestershire and the region. It is therefore relevant to consider CIL and Affordable Housing requirements in neighbouring authorities. That said, every local authority area has unique economic circumstances and geography which could result in different Economic Viability Appraisal (EVA) evidence. For example, Leicester is an urban area compared to Harborough District. Also CIL

⁴⁹ SPG, Note 2 Residential Development (19th March 2003).

⁵⁰ [http://www.harborough.gov.uk/info/20004/planning_strategy/123/planning_policies - new local plan](http://www.harborough.gov.uk/info/20004/planning_strategy/123/planning_policies_-_new_local_plan) (accessed 12/1/16)

is not to be used as a policy tool across boundaries, but should be based on the EVA evidence from the relevant authority.

3.39 We set out below the headline CIL and Affordable Housing targets from surrounding authorities for ease of comparison (Table 3.8).

| Local Authority | Affordable Housing | Residential CIL |
|-----------------|--|--|
| Blaby | 25% across the whole District on sites of 15 or more dwellings ⁵¹ | No charging schedule |
| Leicester | 15% in the Strategic Regeneration Area; 30% in the South East of the City and Ashton Green; 20% elsewhere in the City on sites of 15 or more dwellings or sites of 0.5 ha or over ⁵² | Two charging zones with rates of £0 / £25 psm ⁵³ |
| Charnwood | 20% to 30% in urban areas and service centres (on sites of 10 or more dwellings). 30% to 40% in rural locations (on sites of 5 or more dwellings). ⁵⁴ | No charging schedule |
| Melton | From 20% to 100% on allocated sites ⁵⁵ | No charging schedule |
| Rutland | 35% across the whole District on sites of 5 dwellings or more or sites of 0.15 ha or over ⁵⁶ | £100 psm (Sheltered Housing and Extra Care Housing £NIL) |
| Corby | 30% across the borough on sites of 1.5 ha or more ⁵⁷ | Two charging zones with rates of £50 / £100 psm |
| Kettering | 15% - 20% on sites of 20 or more dwellings ⁵⁸ | Two charging zones with rates of £50 / £100 psm |
| Daventry | 25% in Daventry Town; 40% in Rural Areas on sites of 5 or more dwellings ⁵⁹ | Two charging zones with rates of £50 / £200 psm. £200 psm reduced to £65 psm if sufficient affordable housing. |
| Rugby | 33.3% on sites of between 0.5 - 1 ha or capable of accommodating 15 or more dwellings 40% on sites exceeding 1 ha or capable of accommodating 30 or more dwellings ⁶⁰ | Two charging zones with rates of £50 / £100 psm |

⁵¹ Blaby District Local Plan Adopted February 2013 (Policy CS7 Affordable Housing)

⁵² Leicester City Core Strategy Adopted July 2014 (CS Policy 7 Affordable Housing)

⁵³ Community Infrastructure Levy Draft Charging Schedule, February 2015, City Mayor

⁵⁴ Charnwood Local Plan 2011 to 2028 Adopted November 2015 (Policy CS3 Strategic Housing Needs)

⁵⁵ (Policy H7 Affordable Housing on Allocated Sites)

⁵⁶ Rutland Core Strategy Adopted July 2011 (Policy CS11 Affordable Housing)

⁵⁷ Corby Borough Council Local Plan 1997 (saved Policy P1(R) Affordable Housing)

⁵⁸ Supplementary Planning Guidance Saved Policies July 2011, Kettering Borough Council (saved Policies D5, B5 and RA6)

⁵⁹ West Northamptonshire Joint Core Strategy Local Plan Adopted December 2014 (Policy H2 Affordable Housing)

⁶⁰ Final Version Core Strategy Rugby Borough Council Adopted June 2011 (Policy CS19)

| Local Authority | Affordable Housing | Residential CIL |
|--|---|----------------------|
| Oadby and Wigston | Oadby 30%; Wigston 20%; South Wigston 10% on sites of 10 dwellings or more ⁶¹ | No charging schedule |
| Table 3.8 – Neighbouring Authorities Policies | | |

⁶¹ Oadby and Wigston Core Strategy Adopted September 2010 (Policy 11 Affordable Housing)

4 Viability Assessment Method

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

The Harman Report

- 4.2 The Harman report ‘Viability Testing Local Plans’⁶² (June 2012) refers to the concept of ‘Threshold Land Value’ (TLV). We adopt this terminology throughout this report as it is an accurate description of the important value concept. Harman states that the *‘Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development.’*⁶³
- 4.3 The Harman report also advocates that when considering the appropriate Threshold Land Value, consideration should be given to *‘the fact that future plan policy requirements will have an impact on land values and owners’ expectations’*. In this context Harman is concerned that *‘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’*⁶⁴ (our emphasis).
- 4.4 Harman does still acknowledge that reference to market values will provide a useful ‘sense check’ on the Threshold Land Values that are being used in the appraisal model; however, *‘it is not recommend that these are used as the basis for input into a model’*.⁶⁵
- 4.5 Harman recommends that *‘the Threshold Land Value is based on a premium over current use values and ‘credible’ alternative use values’*. However, the report accepts that *‘alternative use values are most likely to be relevant in cases where the Local Plan is reliant on sites coming*

⁶² Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report)

⁶³ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report) page 28

⁶⁴ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report) page 29

⁶⁵ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report) page 29

*forward in areas (such as town and city centres) where there is competition for land among a range of alternative uses.*⁶⁶

- 4.6 The Harman report does not state what the premium over existing use value should be, but states that this should be ‘determined locally’ – but then goes on to state that *‘there is evidence that it represents a sufficient premium to persuade landowners to sell’*⁶⁷. This takes us back to a Market Value approach (see RICS guidance below).
- 4.7 The guidance further recognises that in certain circumstances, particularly in areas where landowners have *‘long investment horizons’* (e.g. family trusts, The Crown, Oxbridge Colleges, Financial Institutions), *‘the premium will be higher than in those areas where key landowners are more minded to sell’*⁶⁸. An example of this is in relation to large urban extensions where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset. In this scenario the uplift on current use value will invariably be significantly higher than those in an urban context. In reconciling such issues, Harman stresses the **importance of using local market evidence** as a means of providing a sense check.
- 4.8 The Harman report clearly favours an approach to benchmarking which is based on current / existing use value plus a premium. However, this is not how the market works in practice as property is transacted by reference to the Market Value which for development land is derived from the Residual Land Value. Also, to determine the existing use value you need to know the use which is to be redeveloped. This is relevant for site-specific S106 negotiations but is more problematic for hypothetical typologies for a District-wide strategic context. At numerous points throughout the document, Harman advocates, that the outcome of this approach will need to be ‘sense checked’ against **local market evidence** (pages 29, 30, 31, 34, 36, 40).
- 4.9 Indeed the report does acknowledge that, *‘if resulting Threshold Land Values do not take account [of local market knowledge], it should be recognised that there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound.*⁶⁹

⁶⁶ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report) page 29

⁶⁷ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report) page 29

⁶⁸ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report) page 30

⁶⁹ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the ‘Harman’ report) page 30

RICS Guidance

- 4.10 The RICS guidance on Financial Viability in Planning⁷⁰ was published after the Harman report in August 2012 (the Harman Report was published in June 2012) and it is much more ‘market facing’ in its approach.
- 4.11 The RICS guidance is grounded in the statutory and regulatory planning regime that currently operates in England and is consistent with the Localism Act, the NPPF and Community Infrastructure Levy (CIL) Regulations.
- 4.12 Whilst the RICS Guidance and that from the Local Housing Delivery Group can be seen as complementary the RICS guidance provides more technical guidance on determining an appropriate site / benchmark value.
- 4.13 The RICS Guidance defines financial viability for the purposes of town planning decisions as -
- An objective financial viability test of the ability of development to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer⁷¹*
- 4.14 In assessing the impact of planning obligations on the viability of the development process, the Guidance does not specify a prescriptive tool or financial model - albeit it does recognise that it is accepted practice to use a residual valuation model as the appraisal framework.⁷²
- 4.15 However, it does emphasise the ‘**importance of using market evidence as the best indicator of the behaviour of willing buyers and willing sellers in the market⁷³**’. The Guidance warns that -
- 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/or development will not take place. This is recognised in the NPPF.⁷⁴*
- 4.16 The RICS Guidance defines ‘site value’, whether this is an input into a scheme specific appraisal or as a [threshold land value] benchmark, as follows -
- Site value should equate to the **market value** subject to the following assumption: that the value has regard to development plan policies and all other material planning*

⁷⁰ RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012

⁷¹ RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 2.1.1

⁷² RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 page 16

⁷³ RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 3.1.4

⁷⁴ RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 2.1.4

considerations and disregards that which is contrary to the development plan⁷⁵ (Box 7)
(our emphasis)

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

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

- 4.18 As mentioned above emerging practice has tended to use the existing use value plus premium approach to land value. This is useful to help 'triangulate' the market value for a particular site, but the emphasis does have to be on property market evidence if the scheme is to be grounded in reality and therefore deliverable.

Planning Inspectorate Examination Reports

- 4.19 A number of Planning Inspectorate reports have comments upon the critical issue of land value, as set out below.

Mayor of London CIL (Jan 2012)

- 4.20 The impact on land value of future planning policy requirements e.g. CIL [or revised Affordable Housing targets] was contemplated in the Examiner's report to the Mayor of London CIL (January 2012)⁷⁶.

- 4.21 Paragraph 32 of the Examiner's report states:

*...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*

⁷⁵ This includes all Local Plan policies relevant to the site and development proposed

⁷⁶ Holland, K (27 January 2012) Report on the Examination of the Draft Mayoral Community Infrastructure Levy Charging Schedule, The Planning Inspectorate, PINS/K5030/429/3

and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges. (our emphasis)

Greater Norwich CIL (Dec 2012)

4.22 The Greater Norwich Development Partnership's CIL Examiner's report adds to this -

*Bearing in mind that the cost of **CIL needs to largely come out of the land value**, it is necessary to establish a threshold land value i.e. the value at which a typical willing landowner is likely to release land for development. Based on market experience in the Norwich area the Councils' viability work assumed that **a landowner would expect to receive at least 75% of the benchmark value**. Obviously what individual land owners will accept for their land is very variable and often depends on their financial circumstances. However in the absence of any contrary evidence **it is reasonable to see a 25% reduction in benchmark values as the maximum** that should be used in calculating a threshold land value⁷⁷. (our emphasis)*

Sandwell CIL (Dec 2014)

4.23 Furthermore the Examiner's report for the Sandwell CIL states -

*The TLV is calculated in the VAs [Viability Assessments] as being **75% of market land values** for each typology. According to the CA, this way of calculating TLVs is based on the conclusions of Examiners in the Mayor of London CIL Report January 2012 and the Greater Norwich Development Partnership CIL Report December 2012. **This methodology was uncontested.**⁷⁸*

Brownfield / Greenfield Land Economics

4.24 CIL has its roots in the perceived windfall profit arising from the release of greenfield land by the planning system to accommodate new residential sites and urban extensions⁷⁹. However, lessons from previous attempts to tax betterment⁸⁰ show that this is particularly difficult to achieve effectively without stymieing development. It is even harder to apply the concept to brownfield redevelopment schemes with all attendant costs and risks. The difference between

⁷⁷ Report to the Greater Norwich Development Partnership – for Broadland District Council, Norwich City Council and South Norfolk Council, by Keith Holland BA (Hons) Dip TP, MRTPI ARICS, 4 December 2012, File Ref: PINS/G2625/429/6 – paragraph 9

⁷⁸ Report to Sandwell Metropolitan Borough Council by Diana Fitzsimons MA MSc FRICS MRTPI an Examiner appointed by the Council, 16 December 2014, File Ref: PINS/G4620/429/9 - paragraph 16

⁷⁹ See Barker Review (2004) and Housing Green Paper (2007)

⁸⁰ the 2007 Planning Gain Supplement, 1947 'Development Charge', 1967 'Betterment Levy' and the 1973 'Development Gains Tax' have all ended in repeal

greenfield and brownfield scheme economics is important to understand for affordable housing targets and CIL rate setting.

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

makes the development economics much more accommodating. There is much more scope to capture development gain, without postponing the timing of development.

- 4.33 That said, there are some other important considerations to take into account when assessing the viability of greenfield sites. This is discussed in the Harman Report⁸¹.
- 4.34 The existing use value may be only very modest for agricultural use and on the face of it the landowner stands to make a substantial windfall to residential land values. However, there will be a lower threshold (Threshold Land Value) where the land owner will simply not sell. This is particularly the case where a landowner *'is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations.'*⁸² Accordingly, the 'windfall' over the existing use value will have to be a sufficient incentive to release the land and forgo the future investment returns.
- 4.35 Another very important consideration is the promotional cost of strategic greenfield sites. For example, in larger scale urban extension sites such as the Strategic Development Areas identified in the Options Consultation Paper for the Harborough Local Plan, there will be significant investment in time and resources required to promote these sites through the development plan process. The threshold land value therefore needs to take into account of the often substantial planning promotion costs, option fees etc. and the return required by the promoters of such sites. *'This should be borne in mind when considering the [threshold] land value adopted for large sites and, in turn, the risks to delivery of adopting too low a [threshold] that does not adequately and reasonably reflect the economics of site promotion...'*⁸³
- 4.36 This difference between the development 'gain' in the context of a greenfield windfall site and the slow-burn redevelopment of brownfield sites is absolutely fundamental to the success of any regime to capture development gain such as CIL. It is also key to the 'incidence' of the tax i.e. whether the developer or the land owner carries the burden of the tax.
- 4.37 In this case we have carefully considered the physical nature of the SDAs and other areas where greenfield and brownfield development is likely to take place.

⁸¹ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) pp 29-31

⁸² Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30

⁸³ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 31

Land Economics Summary

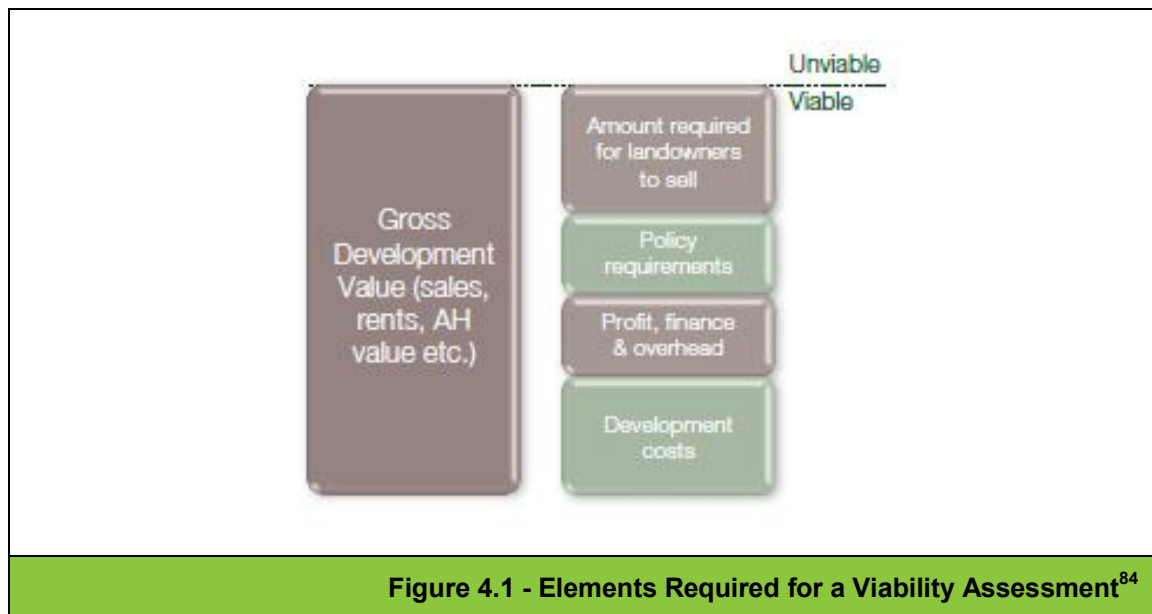
- 4.38 A very important aspect when considering CIL is an appreciation of how the property market for development land works in practice.
- 4.39 Developers have to secure sites and premises in a competitive environment and therefore have to equal or exceed the landowners' aspirations as to value for the landowner to sell. From the developers' perspective, this price has to be agreed often many years before commencement of the development. The developer has to subsume all the risk of: ground conditions; obtaining planning permission; funding the development; finding a tenant/occupier; increases in constructions costs; and changes to the economy and market demand etc. This is a significant amount of work for the developer to manage; but this is the role of the developer and to do so the developer is entitled to a 'normal' developers' profit. In this respect we have included an allowance of 20% (see Profit, Finance, Overhead pp 37-38) as many developers (and their funders) require this level of return given the current economic circumstances. The developer will appraise all of the above costs and risks to arrive at their view of the residual site value of a particular site.
- 4.40 To mitigate some of these risks developers and landowners often agree to share some of these risks by entering into arrangements such as Market Value options based on a planning outcome, 'subject to planning' land purchases', and / or overage agreements whereby the developer shares any 'super-profit' over the normal benchmark.
- 4.41 From the landowners' perspective, they will have a preconceived concept of the value or worth of their site. This could be fairly straight-forward to value, for example, in the case of greenfield agricultural land which is subject to per hectare benchmarks. However, in the case of brownfield sites, the existing use value could be a lot more subjective depending upon the previous use of the property; the condition of the premises; and/or any income from temporary lets, car parking and advertising hoardings etc. Also, whilst (say) a former manufacturing building could have been state-of-the-art when it was first purchased by the landowner, in a redevelopment context it might now be the subject of depreciation and obsolescence which the landowner finds difficult to reconcile. Accordingly, the existing use value is much more subjective in a brownfield context.
- 4.42 Furthermore, where there is a possibility of development the landowner will often have regard to 'hope value'. Hope value is the element of open market value of a property in excess of the existing use value, reflecting the prospect of some more valuable future use or development. It takes account of the uncertain nature or extent of such prospects, including the time which would elapse before one could expect planning permission to be obtained or any relevant constraints overcome, so as to enable the more valuable use to be implemented. Therefore in a rising market landowners may often have high aspirations of value beyond that which the

developer can justify in terms of risk and in a falling market the land owner may simply 'do nothing' and not sell in the prospect of a better market returning in the future. The actual amount paid in any particular transaction is the purchase price and this crystallises the value for the landowner.

- 4.43 Hence land 'value' and 'price' are two very different concepts which need to be understood fully when formulating planning policy and CIL. The incidence of any tax/CIL to a certain extent depends on this relationship and the individual circumstances. For example, a farmer with a long-term greenfield site might have limited 'value' aspirations for agricultural land – but huge 'price' aspirations for residential development. Whereas an existing factory owner has a much higher value in terms of sunk costs and investment into the existing use and the tipping point between this and redevelopment is much more marginal.

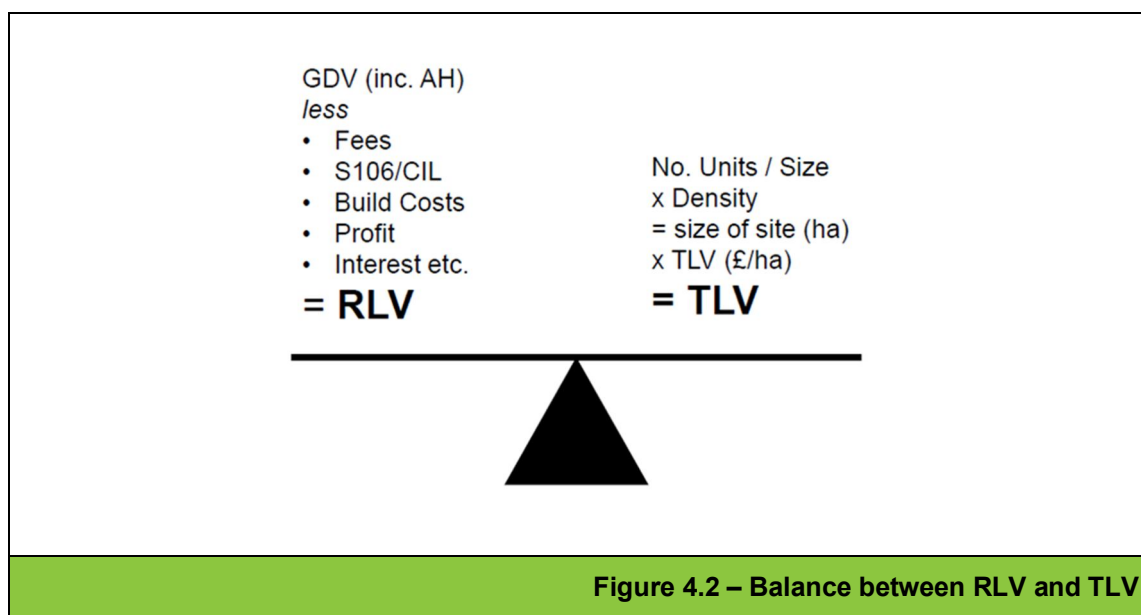
Viability Modelling Best Practice

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



⁸⁴ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 25

- 4.46 Our specific appraisals for each for the land uses and typologies are set out in the relevant section below.
- 4.47 Note that we have used the RLV (£ per hectare) in order to compare the viability of each SDA relative to each other. This has regard to the relevant OMS values, infrastructure costs and S106 requirements.
- 4.48 In order to advise on the ability of the proposed uses/scheme to support affordable housing and CIL charge we have benchmarked the residual land values from the viability analysis against existing or alternative land use relevant to the particular typology – the Threshold Land Value (TLV).
- 4.49 A scheme is viable if the total of all the costs of development including land acquisition, planning obligations and profit are less than the GDV of the scheme. Conversely, if the GDV is less than the total costs of development (including land, S106s and profit) the scheme will be unviable.
- 4.50 If the balance is positive, then the policy is viable. If the balance is negative, then the policy is not viable and the CIL and/or affordable housing rates should be reviewed.
- 4.51 This approach is summarised on the diagram below (Figure 4.2).



5 Residential

- 5.1 In this section we review the development monitoring data, Land Registry values and asking values from Rightmove and Zoopla, as well as evidence for land values and transfer values. This is to inform our residential cost, profit and land value assumptions. We also set out our residential typology assumptions and the viability results.

Residential Development Monitoring

- 5.2 We have been provided by the Council with a representative sample of development typologies from across the District⁸⁵ which we have analysed. We have also analysed the key metrics from various economic viability assessments (EVAs) that we have reported on for the Council (under a separate commission). This analysis is set out below.

Development Monitoring Sample Analysis

- 5.3 We have been provided with the details of a sample of 19 schemes by the Council. These comprise 6 schemes in the Urban Settlements locations (of Market Harborough, Lutterworth and Broughton Astley), 4 in Scraftoft. Thurnby and Bushby on the borders with Leicester, 6 in Rural Centres and 3 in Selected Rural Village locations.
- 5.4 In terms of the 6 **Urban Settlement** schemes the median scheme size was 120 units with a range of between 24 – 149 units. Some of these schemes are within the settlement and others are on the settlement boundary, however, this is not a determinant of the scheme size. The average development density of these schemes is 23 dph (median 22 dph) with a range between 16-37 dph. Note that this may not be representative at the quoted site area is the gross site area on the planning application and may not be the net developable area. All of the schemes made contributions to affordable housing of between 24% - 30%. The average was 28% (median 29%). In addition, the average contribution to 'other' S106 contributions was £4,825 per unit (median £5,910 per unit).
- 5.5 Schemes in **Scraftoft. Thurnby and Bushby** showed similar characteristics. The median scheme size was 129 units but with a larger range of between 111 – 275 units (the three largest schemes being edge of settlement schemes). The average development density of these schemes is 22 dph (median 19 dph) with a range between 16-32 dph⁸⁶. We only have affordable housing data for 2 of the schemes but the average was 31% (median 31%). In addition, the average contribution to 'other' S106 contributions was £4,825 per unit (median

⁸⁵ 160201 Viability Housing data_v1

⁸⁶ Again, note that this may not be representative at the quoted site area is the gross site area on the planning application and may not be the net developable area.

£5,910 per unit). One of the schemes made other S106 contributions amounting to £5,429 per unit in lieu of affordable housing.

- 5.6 In terms of the 6 schemes in the **rural centres** the median scheme size was 34 units with a range of between 13 – 60 units. The larger of the schemes (>40 units) are on the settlement boundary and the smaller schemes are within the settlement (<28 units). The average development density of these schemes is 23 dph (median 24 dph) with a range between 17-31 dph.⁸⁷ All of the schemes made contributions to affordable housing of between 5% - 40%. The average was 28% (median 31%). In addition, the average contribution to 'other' S106 contributions was £39,708 per unit (median £29,268 per unit) – but this is skewed by two projects with £1 million and £1.2 million healthcare S106s. One of these was responsible for on 5% affordable housing (presumably as a consequence).
- 5.7 Finally, in terms of developments in selected **rural villages**, two of the schemes had 8 units and one of the schemes had 20 units (on the edge of settlement). The average development density of these schemes is 20 dph (median 24 dph).⁸⁸ The average affordable housing contribution was 33% (median 38%). In addition, one scheme (with the lowest affordable housing contribution of 25%) contributed £1.2 million to libraries (£63,600 per unit).

Economic Viability Assessments (EVA) Analysis

- 5.8 We have reviewed 10 site specific EVA's in the Harborough District to understand the profit levels, residual land values and development densities being achieved.
- 5.9 We discuss the findings from this analysis below and in the following value and cost assumptions sections.
- 5.10 Note that these are schemes that have been subject to a viability assessment and it could be misleading to benchmark affordable housing to these and exclude schemes that have been approved without a viability case.
- 5.11 Of these schemes 5 are in rural centres and 4 are in urban settlements (1 x in a selected rural village).
- 5.12 The schemes in the urban settlements ranged between 9 and 99 units with an average of 56 units (median 58). The schemes in rural centres were unsurprisingly smaller – a range between 4 and 28 with an average 18 units (median 18).

⁸⁷ Again, note that this may not be representative at the quoted site area is the gross site area on the planning application and may not be the net developable area.

⁸⁸ Again, note that this may not be representative at the quoted site area is the gross site area on the planning application and may not be the net developable area.

- 5.13 The average development density is 35 dph (median 38 dph)⁸⁹. This did not differ significantly between rural and urban schemes.
- 5.14 All the schemes in the urban settlements made contributions to affordable housing of between 11% - 40%. The average was 26% (median 36%). In addition, the average contribution to 'other' S106 contributions was £4,706 per unit (median £5,234 per unit) – but this is skewed by two projects with nil contributions.
- 5.15 The schemes in the rural settlements delivered less affordable housing (<8%). The average contribution to 'other' S106 contributions was £4,068 per unit (median £3,768 per unit) – but again this is skewed by three projects with nil contributions.

Airfield Farm SDA, Market Harborough

- 5.16 We have been provided with a copy of a Viability Assessment Report by BNP Paribas Real Estate for Airfield Farm SDA in Market Harborough (July 2014). The BNP report is to examine the development economics of the proposed development of 924 new dwellings.
- 5.17 This SDA is not part of our study as a planning application has been submitted and it is anticipated that the scheme will have planning permission before the emerging Local Plan is adopted. We have reviewed the BNP report in order to 'sense-check' our assumptions for the SDA appraisal typologies⁹⁰.

Residential Value Assumptions

- 5.18 This section sets out our residential value assumptions. It should be read in conjunction with the property market review appended.
- 5.19 Note that all the following value and cost assumptions are to be the subject of stakeholder consultation / workshop to take place during the next phase of Plan preparation.

Housing Market Zones

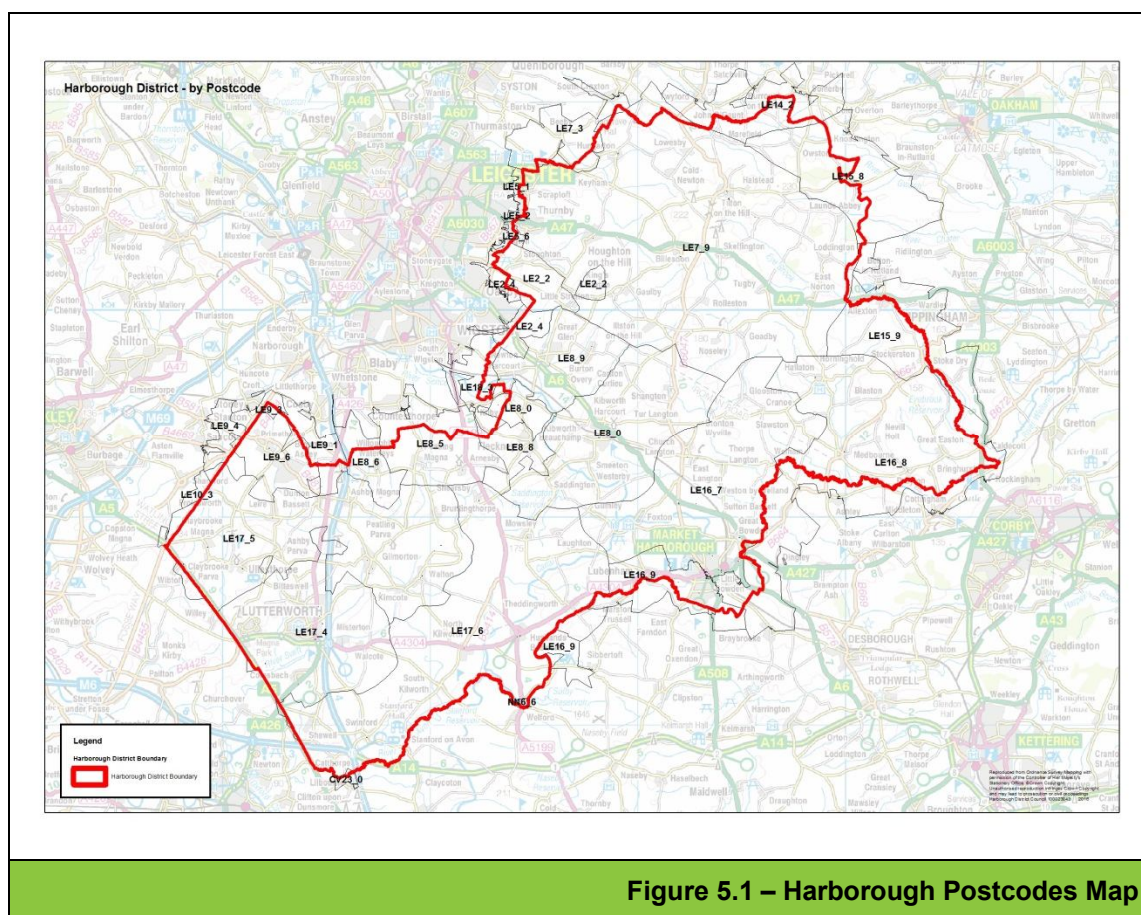
- 5.20 The District is currently split into five sub-market areas based on areas with similarities in terms of house prices (as shown in Figure 3.1 in Section 3). These five sub-markets are (in order from highest average price to lowest);
- Harborough Rural South West housing sub-market area
 - Harborough Rural North and Central housing sub-market area
 - Market Harborough housing sub-market area

⁸⁹ Again, note that this may not be representative at the quoted site area is the gross site area on the planning application and may not be the net developable area.

⁹⁰ Confidential scheme data removed – see confidential version 9

- Lutterworth housing sub-market area
 - Blaby Border Settlements housing sub-market area⁹¹
- 5.21 We have undertaken a review of recent market activity in order to understand the characteristics of these housing market areas.
- 5.22 We have reviewed Land Registry achieved value data for the past two years for all second-hand properties across all 29 postcode areas in the District and then sorted these in order from lowest to highest values achieved. We have used Land Registry second-hand property data as opposed to new build data as it provided a more representative sample size across all postcodes (relative to each other).
- 5.23 We have then mapped this data to understand the distribution of higher and lower value areas across the District.
- 5.24 Land Registry did not have data for second-hand flats across all postcode areas, therefore we have not included flats in the analysis.
- 5.25 In terms of second-hand **terraced** properties, the lowest value postcode areas were those on the urban-fringe of Leicester and the north-west border of Harborough District, such as LE5, LE8 and LE9. It was interesting to note that Lutterworth (LE17 4) was recorded as the median value area. Higher values were achieved across the rest of the District, in particular, in LE16 8 (covering Great Easton and Medbourne), NN6 6 to the south of the District and LE2 2. The LE2 2 postcode area is anomalous in terms of it being a higher value area in a band of lower value, it is part of the urban settlement of Leicester and incorporates the town of Oadby and villages of Little Stretton and Stoughton.
- 5.26 The achieved values for each postcode area follow a similar pattern for second-hand **semi-detached** properties. There is a band of lower value across the north-western border of Harborough District. The lowest value areas are LE5 1 and LE5 2 which are both in the suburbs of Leicester, values in Lutterworth (LE17 4) were also lower. The median value area was LE8 O (Kibworth). The highest value area was LE2 2, followed by LE14 2 and LE15 9 (to the east of the District). See postcode map (Figure 5.1) below.

⁹¹ Harborough District Local Development Framework, Core Strategy, 2006-2028, page 32.



- 5.27 Achieved values of **detached** second-hand properties displayed a similar pattern of lower value towards the urban-fringe of Leicester, the lowest value being LE5 1 and LE8 8. Values achieved in Lutterworth (LE17 4) were also lower. The median value area was Market Harborough (LE16 9) to the south of the District. The highest value areas were LE2 2 as well as LE15 8 and LE15 9 (to the east of the District).
- 5.28 When mapping the average values achieved across **all terraced, semi-detached and detached** second-hand properties the same pattern is shown. There is a band of lower value on the north-western boundary, in the Leicester urban fringe. Lutterworth (LE17 4 is also of lower value). The rest of the District is achieving higher values, with the highest values in LE2 2. This is closely followed by high values in LE15 8 and LE15 9 to the east of the District.
- 5.29 This review clearly shows a lower value area on the north-western boundary of the District, with the rest of the District achieving higher values (see the map below). With the exception of Lutterworth, which achieves consistently lower values, albeit not as low as those postcode areas within the Leicester urban fringe. Market Harborough is consistently towards the median

value. Whilst, there is clearly a lower value band to the north of the District, both Lutterworth and Market Harborough could go either in a lower or a higher affordable housing market area.

5.30 After undertaking a review of achieved values across the District we have reached a conclusion that there should be four housing market zones –

- Blaby Border;
- Lutterworth;
- Market Harborough;
- and the Rural Hinterland.

5.31 The Leicester urban-fringe achieves significantly lower values and therefore this should be a lower value housing market zone. Similarly, Lutterworth is consistently achieving lower values and therefore should remain a lower housing market zone. Market Harborough is the principal market town in the District and has its own market characteristics. The values for all tenure types are around the middle of the range across all postcodes in the District and therefore, it should be retained as a separate housing market zone. The rest of the District is achieving higher values and could be classed as one housing market area – the rural hinterland.

5.32 It is important to note that the analysis is based on average values and there is a considerable range of values within the postcode areas themselves. When the postcodes are ranked in order of value there is only a small difference in value between each postcode area (typically £2-3,000). Consideration has been given therefore having no zoning and a single affordable housing target (and CIL) across this District. This is simpler to administer, but the difference in average values between the highest value postcode area and the lowest value area is £200,000. Therefore it is appropriate to zone the District such that the higher value areas are contributing to the infrastructure of the District and the land values are moderated. The limitation of this approach is that wherever you draw the line in terms of creating zones there will always be those postcodes on the margins of the zones.

5.33 The location of the proposed SDAs within these housing market zones is as follows –

- Lutterworth SDA – within the central area of postcode LE17 4 and therefore in the Lutterworth housing market zone (30% affordable housing)
- Kibworth (North West / North and East) SDAs – both are within postcode LE8 0 and therefore within the Rural Hinterland housing market zone (40% affordable housing)
- East Scraftoft SDA – this is located to the western fringe of postcode LE7 9 which is a very large postcode area. This SDA is close to the eastern suburbs of Leicester and therefore we have appraised this SDA having regard to Leicester postcodes (LE5 1, LE5

2 and LE5 6), asking prices in Scraptoft, Bushby and Thurnby and LE7 9 values (40% affordable housing).

Open Market Sales (OMS)

5.34 For the purposes of our viability appraisals we have used the following OMS values (Table 5.2).

| Housing Zones | Postcodes | 1 Bed Flat | 2 Bed Flat | 2 Bed House | 3 Bed House | 4 Bed House | 5 Bed House |
|--------------------------|--|------------|------------|-------------|-------------|-------------|-------------|
| Blaby Border Settlements | LE9 4; LE9 3; LE9 6; LE9 1; LE8 6; LE8 5; LE8 8 | £120,000 | £130,000 | £180,000 | £210,000 | £240,000 | £290,000 |
| Lutterworth | LE174; (incl. Lutterworth SDA) | £155,000 | £170,000 | £210,000 | £245,000 | £290,000 | £370,000 |
| Market Harborough | LE16 7, LE16 9 | £160,000 | £175,000 | £220,000 | £250,000 | £340,000 | £430,000 |
| Rural | LE10 3; LE17 5; LE17 6; CV23 0; NN6 6; LE16 9; LE8 0; LE18 3; LE8 9; LE2 4; LE2 2; LE7 9; LE14 2; LE15 8; LE15 9; LE16 8 (incl. Kibworth SDAs) | £170,000 | £185,000 | £230,000 | £265,000 | £375,000 | £450,000 |
| Scraptoft SDA | LE7 9 (part only, having regard to Leicester postcodes LE5 1; LE5 2; and LE5 6 and also asking prices in Scraptoft, Bushby and Thurnby) | £125,000 | £130,000 | £185,000 | £220,000 | £260,000 | £320,000 |

Table 5.2 – OMS Value Assumptions⁹²

5.35 Please see the property market review appended for the detailed analysis.

Transfer Values

5.36 The current tenure requirement is to seek (in general terms) a 60 / 40 split between Affordable Rent and Intermediate housing respectively. The current assumptions for Transfer Values are -

- Affordable Rent is 45% of Open Market Value (OMV), and
- Intermediate Housing is 60% of OMV

⁹² 160405 Harborough Values for Appraisal_v6

- 5.37 It is important note that these assumptions should be further evidenced by consultation with Registered Providers given the structural changes that are taking place in the sector including welfare reforms, rent reduction formula etc.

Residential Cost Assumptions

- 5.38 The development costs are described below.

Initial Payments

- 5.39 These are the ‘up-front’ costs prior-to or at start-on-site. These costs are set out in Table 5.3 below.

| Item | Assumption |
|--|--|
| Planning Application Professional Fees and reports | Allowance for typology |
| Statutory Planning Fees | Based on national formula |
| CIL | This is the CIL rate (£ psm) and an input to the CIL sensitivity tables |
| Site specific S106/S278 | Site Specific Allowance for typology – note that this is in addition to CIL and external works costs |
| AH Commuted Sum | This is a field for affordable housing commuted sums on smaller scheme typologies where there is 0% affordable housing ‘on-site’ |

Table 5.3 – Residential Appraisals Initial Cost Assumptions

Construction Costs

- 5.40 We have excluded any costs for demolition and site clearance. This is on the basis that the TLV assumptions used are for cleared sites.
- 5.41 For the purposes of this viability appraisal we have used costs from the Building Cost Information Services (BCIS). These have been rebased on Leicestershire (not Harborough, due to the smaller sample size for Harborough) and adjusted for costs within the last 5 years. The relevant costs are (Table 5.4) –

| Type | Mean | Lowest | Lower quartiles | Median* | Upper quartiles | Highest | Sample [size] |
|--|--------|--------|-----------------|---------|-----------------|---------|---------------|
| Estate housing – generally | £1,053 | £612 | £902 | £1,017 | £1,153 | £3,373 | 748 |
| Flats (apartments) - generally | £1,287 | £720 | £1,079 | £1,233 | £1,444 | £4,221 | 261 |
| 'One-off' housing detached (3 units or less) | £1,885 | £961 | £1,234 | £1,656 | £2,348 | £5,129 | 32 |
| Table 5.4 – BCIS Residential Construction Costs (£ psm) (February 2016) | | | | | | | |

5.42 Note that the above BCIS costs are all based on a 5 year sample and therefore based on the 2010 Part L Building Regulations which is the current approved technical guidance for conservation of fuel and power.

5.43 We have 'sense-checked' this against the sites specific scheme EVA data (see above). This shows that the build rates agreed by developers are less than the BCIS rates above. The developers build rates are set out on the following table (Table 5.5) –

| Type | Urban Settlements | | Rural Centres | | All Settlements | |
|--------------------------------|-------------------|-----------|---------------|-----------|-----------------|-----------|
| | Houses | Flats | Houses | Flats | Houses | Flats |
| Max | £1,044.00 | £1,044.00 | £1,051.00 | £1,128.00 | £1,051.00 | £1,128.00 |
| Min | £667.69 | £1,044.00 | £902.87 | £941.00 | £667.69 | £941.00 |
| Ave | £907.56 | £1,044.00 | £969.22 | £1,040.00 | £927.03 | £1,041.00 |
| Median | £1,011.00 | £1,044.00 | £961.50 | £1,051.00 | £961.50 | £1,047.50 |
| Table 5.5 – Table Title | | | | | | |

5.44 Note that government has consulted on a mandatory set of national standards for the technical performance of new housing to be implemented through the Building Regulations. The Code for Sustainable Homes will be superseded by the new technical standards elements of which some will be mandatory (e.g. energy efficiency standards), while others will be optional to be pursued through Local Plan policies (e.g. water efficiency).

5.45 The above build costs exclude external works. The Harman report states, '[external works] are likely to vary significantly from site to site. The planning authority should include appropriate average levels for each type of site unless more specific information is available. Local

*developers should provide information to assist in this area where they can, taking into account commercial sensitivity.*⁹³

- 5.46 From the sample of 10 site specific EVA's we calculate that the average external work rate applied was 12.5% (median 13.4%). The range was between 8.2% and 15% maximum.
- 5.47 For the purposes of our appraisal we have used 15% for external works.
- 5.48 For the purposes of our appraisals we have used the following build costs (Table 5.6).

| Typologies | Build Cost | Comment |
|--|------------|--|
| Estate Housing | £902 psm | Based on BCIS lower quartile rates and industry evidence |
| Flats/apartments | £1,079 psm | Based on BCIS lower quartile rates and industry evidence |
| | + 15% | External Works |
| Table 5.6 – Residential Construction Cost Assumptions | | |

Professional Fees

- 5.49 In analysing a sample of actual site-specific EVAs we have noted the typical professional fees applied. This ranges from 2.8-10.9% across all the schemes. The average is 7.8% (median 8.0%). We note that the professional fees on the smaller Rural Centres schemes (average 9.1%) are higher than on the Urban Settlements schemes (average 6.0%).
- 5.50 For the purposes of our appraisal we have applied 8% professional fees. Note, that 'up-front' fees such as planning fees are included under a separate heading (Initial Payments above) and we are satisfied that 8% is adequate.

Disposal Costs

- 5.51 Disposal costs are included based on 1% sale agents, 0.5% sales legal fees and 3% marketing and promotion.
- 5.52 Note that the marketing and promotion costs have to be considered 'in-the-round' with the sales values.

⁹³ Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 35

Finance Costs

- 5.53 We have reviewed the interest charges on a sample of actual site specific EVAs. This ranges from 1.3 - 7.0% across all the schemes. The average is 5.4% (median 6.3%). We note that the interest charges on the smaller Rural Centres schemes are generally lower than on the Urban Settlements schemes (average 4.3% versus 6.6%).
- 5.54 For the purposes of our appraisal we have applied an interest rate of 6.5%. This is on 100% of the debit interest. In addition we have incorporated finance fees of 1%.

Residential Profit Assumptions

- 5.55 Similarly, we have reviewed the profit on the OMS on a sample of actual site specific EVAs. This ranges from 13.5% - 20.0% across all the schemes. The average is 18.0% (median 18.8%). We note that the profit on the smaller Rural Centres schemes is generally lower than on the Urban Settlements schemes (average 17.0% versus 19.5%).
- 5.56 In all cases the benchmark profit on Affordable Housing is 6%.
- 5.57 For the purposes of this EVA we have applied 20% to the private housing and 6% to the on-site affordable housing (where applicable).
- 5.58 It is important to note that CIL (and for that matter Affordable Housing requirements) should not be set right up to the margins of viability and in this respect evidence shows that developers, in certain circumstances, will agree lower profit margins in order to secure planning permission and generate turnover. The sensitivity analyses within the appendices show the 'balance' (i.e. RLV – TLV) for developers profit from 20% on private housing down to 15%. This clearly shows the significant impact of profit on viability (especially for larger schemes).

Land Value Assumptions

- 5.59 The land value assumption is possibly the most important assumption in Plan Viability as it is the difference between the TLV and the RLV that is the margin for CIL and affordable housing (see Figure 4.2).
- 5.60 We have reviewed the development land market for values in Harborough. This includes land transactional information, land values data from the sample of site specific EVA's and details of asking values for land on the market.
- 5.61 Our land value market review is contained within the separate Residential Market Analysis paper (Appendix 1).
- 5.62 For the purposes of our EVA we have adopted the following market land values (Table 5.7) –

| Housing Market Zone | Typology | MV (per acre) | MV (per ha) | MV > TLV discount | TLV (per acre) | TLV (per ha) |
|---|---------------------------------|---------------|-------------|-------------------|-----------------|-----------------|
| Blaby Border Settlements | Urban Fringe – greenfield | £350,000 | £864,850 | 25% | £262,500 | £648,638 |
| Lutterworth (including Lutterworth SDA) | Urban Fringe – greenfield | £400,000 | £988,400 | 25% | £300,000 | £741,300 |
| Market Harborough | Urban Fringe – greenfield | £450,000 | £1,111,950 | 25% | £337,500 | £833,963 |
| Rural (including Kibworth SDAs) | Edge of Settlement – greenfield | £450,000 | £1,111,950 | 25% | £337,500 | £833,963 |
| Average | | | | | £309,375 | £764,466 |

Table 5.7 – Land Value Assumptions⁹⁴

5.63 In order to arrive at Threshold Land Values we have discounted the benchmark Market Values by 25% to arrive at the TLV following the best practice in the Greater Norwich Development Partnership's CIL Examiners report⁹⁵.

5.64 It is important that these assumptions are consulted upon and more comparable land transaction information is compiled from the development industry and other stakeholders active in the land market. These can then be refined at the next stage.

Residential Typology Assumptions

5.65 This flows from the Local Plan and SHMA evidence (section 3) and also the Development Management/EVA data above. The detailed typologies are set out on the matrix appended (Appendix 2).

Number of Units

5.66 We have appraised 100 unit schemes in the Leicester Urban Fringe, Lutterworth and Market Harborough key towns. This is a representative scheme size.

⁹⁴ 160405 Harborough Land Values Review_v6

⁹⁵ Report to the Greater Norwich Development Partnership – for Broadland District Council, Norwich City Council and South Norfolk Council, by Keith Holland BA (Hons) Dip TP, MRTPI ARICS, 4 December 2012, File Ref: PINS/G2625/429/6 – paragraph 9

5.67 We have appraised a 30 unit scheme in the Rural Centre locations and an 8 unit scheme in the Selected Rural Villages – both in the Rural Hinterland.

5.68 For the SDAs we have used the number of units promoted by the landowners/sponsors.

Scheme Mix

5.69 We have adopted a consistent set of scheme mix assumptions for all typologies based on the evidence above. This is as follows for OMS units (Table 5.8) –

| 2B | 3B | 4B | 5B | 1B (apart) | 2B (apart) | 3B (apart) | Total |
|-----|-----|-----|----|------------|------------|------------|-------|
| 35% | 35% | 15% | 5% | 5% | 5% | 0% | 100% |

Table 5.8 – General OMS Scheme Mix

5.70 We have adopted the following unit mix for the Affordable Housing (Table 5.9) –

| 2B | 3B | 4B | 5B | 1B (apart) | 2B (apart) | 3B (apart) | Total |
|-----|-----|----|----|------------|------------|------------|-------|
| 40% | 20% | 5% | 0% | 15% | 20% | 0% | 100% |

Table 5.9 – Affordable Housing Scheme Mix

Unit Size

- 5.71 For the purposes of our appraisal we have had regard to the nationally described space standards by DCLG.⁹⁶ These minimum floorspace standards are set out on the following table (Table 5.10) –

| Table 1 - Minimum gross internal floor areas and storage (m²) | | | | | |
|---|---------------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| Number of bedrooms(b) | Number of bed spaces (persons) | 1 storey dwellings | 2 storey dwellings | 3 storey dwellings | Built-in storage |
| 1b | 1p | 39 (37) ² | | | 1.0 |
| | 2p | 50 | 58 | | 1.5 |
| 2b | 3p | 61 | 70 | | 2.0 |
| | 4p | 70 | 79 | | |
| 3b | 4p | 74 | 84 | 90 | 2.5 |
| | 5p | 86 | 93 | 99 | |
| | 6p | 95 | 102 | 108 | |
| 4b | 5p | 90 | 97 | 103 | 3.0 |
| | 6p | 99 | 106 | 112 | |
| | 7p | 108 | 115 | 121 | |
| | 8p | 117 | 124 | 130 | |
| 5b | 6p | 103 | 110 | 116 | 3.5 |
| | 7p | 112 | 119 | 125 | |
| | 8p | 121 | 128 | 134 | |
| 6b | 7p | 116 | 123 | 129 | 4.0 |
| | 8p | 125 | 132 | 138 | |

Table 5.10 – Figure Title

- 5.72 The DCLG standards set out a complex matrix of house types and storey heights. We have therefore had to simplify this for our analysis. This is based on the typical floor areas for new dwellings on the market in Harborough. For the purposes of this EVA we have adopted the following floor area assumptions (Table 5.11) –

⁹⁶ Technical housing standards – nationally described space standard (March 2015)

| Dwelling Type | Sqm |
|--|-----|
| 1 Bed Flat | 50 |
| 2 Bed Flat | 70 |
| 2 Bed House | 79 |
| 3 Bed House | 93 |
| 4 Bed House | 106 |
| 5 Bed House | 119 |
| Table 5.11 – Residential Floor Area Assumptions | |

Density

- 5.73 The absolute TLV for any particular typology depends on the net developable site area that is required for the construction the relevant scheme. This is on the basis that developer would not attribute significant value to the 'surplus' land. The absolute TLV is therefore a function of development density as well as TLV £ per hectare.
- 5.74 As set out above (in section 3) the Council's Strategic Housing Land Availability Technical Consultation Draft (June 2014) assumes residential development densities of 40 dph on sites within and adjacent to the Principal Shopping and Business Area of Market Harborough and Lutterworth and 30 dph on sites elsewhere in the District.
- 5.75 The development densities from the development monitoring data describes a *range* of densities that have been achieved albeit often significantly lower than the policy targets (see paragraphs 5.3 – 5.7 above). This could be due to the site area being the gross 'red line' site area and not the 'net' area.
- 5.76 The *average* development density is 35 dph (median 38 dph). This did not differ significantly between rural and urban schemes. The development density applied by the applicant for the Airfield Farm is 31.5 dph (net).
- 5.77 In calculating our absolute TLV's we have adopted a density of 32 dph (net developable area).

Residential Viability Results

5.78 We set out below a summary and results of our viability appraisals.

SDA Viability Results

5.79 Table 5.12 below summarises the results of our appraisal for the SDA sites –

| | 1. Lutterworth SDA | 2. Kibworth N & E SDA | 3. Kibworth NW SDA | 4. Scraftoft SDA |
|--|--------------------|-----------------------|--------------------|--------------------------|
| Site Area (net residential development) (ha) | 84.50 | 50.28 | 34.91 | 45.94 |
| Development density (dph) | 32 | 32 | 32 | 32 |
| Total No. Units | 2,704 | 1,609 | 1,117 | 1,470 |
| Affordable Housing (%) | 30% | 40% | 40% | 40% |
| CIL (£ psm) | £0.00 | £0.00 | £0.00 | £0.00 |
| Site Specific S106 (£ per unit) | £5,780 | £12,224 | £16,920 | £9,126 |
| Infrastructure Costs (£ per unit) | £15,468 | £9,594 | £22,097 | £17,499 |
| RLV (£/ha) | £726,827 | £1,035,926 | £514,408 | £162,053 |
| RLV (£/acre) | £294,143 | £419,233 | £208,178 | £65,582 |
| RLV comments | Viable | Viable | Viable | Fundamentally Not Viable |
| TLV (£/ha) | £741,300 | £833,963 | £833,963 | £648,638 |
| TLV (£/acre) | £300,000 | £337,500 | £337,500 | £262,500 |
| Surplus/Deficit (£/ha) | £14,473 | £201,963 | £319,555 | £810,691 |
| Surplus/Deficit (£/acre) | £5,857 | £81,733 | £129,322 | £328,082 |
| TLV comments | Not Viable | Viable | Not Viable | Fundamentally Not Viable |

Table 5.12 – SDA Viability Results⁹⁷

5.80 Detailed viability appraisals and sensitivity tables are appended (Appendix 4).

5.81 Table 5.12 above summarises the site area and unit number assumptions based on the assumed development density.

5.82 Affordable housing is either 30% or 40% depending on the location (housing market zone).

5.83 We have excluded CIL from the viability calculations on the basis that the site specific infrastructure will be delivered by S106. As you can see, the site specific S106 assumptions range from £5,780 per unit at Lutterworth to £16,920 per unit at Kibworth NW SDA.

⁹⁷ 160406 Harborough AV appraisals v5

- 5.84 Based on the above assumptions the Lutterworth and the two Kibworth SDAs are all viable (in that they have a positive residual land value). The ranking in terms of absolute viability is as follows -
- Kibworth North & East SDA is the most viable with a RLV of £419,233 per acre – but note that this has the least amount of infrastructure per unit (£9,594);
 - Lutterworth is the next most viable SDA with a RLV of £294,143 per acre – but this has only 30% affordable housing;
 - followed by Kibworth North West with a RLV of £208,178 per acre – 40% affordable housing and the most amount of infrastructure per unit (£22,097);
 - Scraftoft SDA is the least viable with a negative RLV of -£65,582 per acre – due to the high infrastructure costs (£17,499) and relatively low OMS.
- 5.85 However, it is important to note that these are all based on high level assumptions. The open market sales (OMS) values are based on the average current market values in the area and it is highly likely that the SDA's of this size and scale (1,117 – 2,704 units) would create their own markets. Note also that the construction cost assumptions are consistent across the entire Harborough area and the two SDA's with the lowest RLV are carrying the highest infrastructure cost per unit (£22,097 - £17,499). It is important that further comparison / assessment takes place to confirm these infrastructure costs.
- 5.86 In accordance with best practice for the purposes of Plan Viability (see Figure 4.2) it is important to compare the absolute RLV with the hypothetical TLV that a 'willing landowner' would be prepared to sell their land for development.
- 5.87 This takes into consideration the TLV (i.e. RLV – TLV) to establish whether a site is viable in planning policy terms. As you can see we have adopted a range of TLV's based on the market research (see above). The TLV ranges from £262,500 per acre for Scraftoft SDA to £337,500 per acre for Kibworth (Rural Hinterland)⁹⁸.
- 5.88 After TLV (i.e. RLV – TLV), the following SDA sites are viable –
- Kibworth North & East at £81,733 per acre surplus.
- 5.89 The other SDA sites all fall into a deficit after TLV (i.e. the TLV is greater than the RLV), as follows -
- Lutterworth SDA goes from being marginally viable (i.e. positive RLV) to not viable for plan making purposes i.e. -£5,857 per acre – however this is only a very small deficit;

⁹⁸ Note that these values are 'average' values and discounted by 25% to allow for emerging plan policies.

- Kibworth North West SDA goes from being marginally viable (i.e. positive RLV) to not viable for plan making purposes i.e. -£129,322 per acre; and
 - Scraptoft SDA goes from a negative RLV to even more of a deficit for plan making purposes i.e. -£328,082 per acre – this is the largest deficit.
- 5.90 It is important to note that the appraisals are very sensitive to changes in: the value and cost assumptions; the TLV assumed; and the allocation of the 'development surplus' between landowner, developers and the LPA in terms of S106. For example, the Kibworth North West SDA appraisal has a GDV of some £232 million and a total cost of £211 million, including profit of £39 million. The RLV is £18 million, so notwithstanding the hypothetical assumption in respect of TLV, these are substantial sums and small percentage changes to the variables have a dramatic effect on viability. This can be seen on the appraisals and sensitivities appended.
- 5.91 For example, referring to the Lutterworth SDA appraisal the scheme would be viable for plan making subject to some very small changes to the assumptions e.g. 29% affordable housing (instead of 30%); a reduction in profit to 19% (as opposed to 20%); or an increase in density to 33 dph (from 32 dph).
- 5.92 Similarly, referring to the Kibworth North West SDA appraisal appended (Appendix 3), the scheme is not viable at 40% affordable housing (and £0 CIL) i.e. RLV – TLV = deficit. However, this becomes positive at between 25 - 30% affordable housing.
- 5.93 Similarly, if the developers profit is reduced from 20% to 17% on OMS values, then the Kibworth North West SDA can support 30 - 35% affordable housing.
- 5.94 Also, the assumed TLV is £833,963 per hectare (£337,500 per acre) for the Kibworth North West SDA. If the TLV were to be reduced to £500,000 - £600,000 per hectare that this would be viable for plan making purposes at 40% affordable housing. At 30% affordable housing the TLV would only need to be reduced to £700,000 - £800,000 per hectare for the SDA to be plan viable.
- 5.95 Finally, the development density assumptions have a significant impact on viability. The greater the development density, the smaller the site that is required for a particular quantum of houses and therefore the lower the total TLV. Thus, for Kibworth North West SDA if the density can be increased to 40 dph we calculate that the scheme would be Plan viable at 30 - 35% affordable housing.
- 5.96 The Scraptoft SDA is even more unviable (-£328,082 per acre) having regard to the TLV. It only becomes viable if the affordable housing is reduced to 10% and the profit is reduced to 15% or the build rate is reduced to 90%.
- 5.97 Detailed appraisals and sensitivity tables are enclosed at Appendix 3.

Hypothetical Typologies Viability Results

5.98 In addition to the above SDA's we have appraised a series of hypothetical schemes in other areas of the District e.g. Market Harborough and the Rural Hinterland (see Typologies Matrix – Appendix 2).

5.99 Table 5.13 below summarises the results of our appraisal for the hypothetical sites –

| | 5. Blaby Border | 6. Lutterworth | 7. Market Harborough | 8. Rural Hinterland | 9. Rural Hinterland |
|--|-----------------|----------------|----------------------|---------------------|---------------------|
| Site Area (net residential development) (ha) | 3.13 | 3.13 | 3.13 | 0.94 | 0.25 |
| Development density (dph) | 32 | 32 | 32 | 32 | 32 |
| Total No. Units | 100 | 100 | 100 | 30 | 8 |
| Affordable Housing (%) | 30% | 30% | 30% | 40% | 40% |
| CIL (£ psm) | £100.00 | £100.00 | £100.00 | £100.00 | £100.00 |
| Site Specific S106 (£ per unit) | £0 | £0 | £0 | £0 | £0 |
| Infrastructure Costs (£ per unit) | £0 | £0 | £0 | £0 | £0 |
| RLV (£/ha) | £498,497 | £1,170,620 | £1,439,685 | £1,525,368 | £1,560,434 |
| RLV (£/acre) | £201,739 | £473,744 | £582,633 | £617,308 | £631,499 |
| RLV comments | Viable | Viable | Viable | Viable | Viable |
| TLV (£/ha) | £648,638 | £741,300 | £833,963 | £833,963 | £833,963 |
| TLV (£/acre) | £262,500 | £300,000 | £337,500 | £337,500 | £337,500 |
| Surplus/Deficit (£/ha) | -£150,140 | £429,320 | £605,723 | £691,406 | £726,472 |
| Surplus/Deficit (£/acre) | -£60,761 | £173,744 | £245,133 | £279,808 | £293,999 |
| TLV comments | Not Viable | Viable | Viable | Viable | Viable |

Table 5.13 – Hypothetical Typologies Results⁹⁹

5.100 Detailed viability appraisals and sensitivity tables are appended (Appendix 3).

5.101 Again, affordable housing is either 30% or 40% depending on the location (housing market zone). We have included CIL at £100 psm in lieu of site specific S106s.

⁹⁹ 160406 Harborough AH appraisals_v5

- 5.102 As can be seen from the above table all of the schemes are viable in that they deliver a positive RLV based on the relevant affordable housing percentage, £100 psm CIL and 20% developers profit. The sensitivity tables (AH % v CIL £psm and AH% v Profit) show that the schemes all include a substantial viability 'buffer'.
- 5.103 However, the Blaby Border typology (scheme 5) is not viable after the assumed TLV (i.e. RLV of £201,739, less TLV £262,500 = deficit £60,761 per acre). This is due to this zone having the lowest OMS values (relative to constant build rates).
- 5.104 In order for this typology to be viable in plan policy terms, the affordable housing % would need to be reduced to 15 - 20% and / or the CIL reduced to < £20 psm.
- 5.105 However, different assumptions would also affect the viability. If the developers profit is reduced from 20% to 15% then this typology would be viable with 30% affordable housing. Similarly, if the assumed TLV is reduced to £500,000 per ha the typology would be viable at 25 – 30% affordable housing. If density is increased to 40 dph, the typology would be viable at 25 – 30% affordable housing. Any combination of these (or other appraisal variables) will have a compound effect on viability.
- 5.106 Finally, it is important to have regard to these sensitivities, particularly on the larger schemes where the absolute values are large and small changes to percentage based assumptions have a significant impact. In addition it is important that the assumptions contained herein are tested further and consulted upon at the next stage(s). This should include consultation with key industry stakeholders e.g. developers, landowner agents, registered providers etc.

Appendix 1 – Residential Market Commentary

(160405 Residential Market Review Paper_v9)

Appendix 2 – Residential Typology Matrix

(160405 Harborough LPlan Viability Typologies_v8)

Appendix 3 – SDA Land Budgets and Assumptions

Appendix 4 – Viability Appraisals and Sensitivities

(160405 Harborough AH appraisals_v4)

