



Viability and Deliverability Report (Local Plans)

Supporting Newcastle City Council Pre-Submission Development and Allocations Plan (Sept. 2018) & Gateshead Council Submission Draft Making Spaces for Growing Places (Sept. 2018)

Newcastle City Council and Gateshead Council

September 2018

CP Viability Ltd



CONTENTS

Chapter 1:	Purpose of Report	4
Chapter 2:	Background to Viability and National Policy Changes	5
Chapter 3:	National Policy Guidance and Legislative Context	12
Chapter 4:	Background: Core Strategy and Urban Core Plan and CIL Testing	21
Chapter 5:	Stakeholder Engagement (Local Plans)	29
Chapter 6:	Viability Methodology / Assumptions Review	42
Chapter 7:	Plan Costs	93
Chapter 8:	Plan Viability Testing	112
Chapter 9:	Non-residential Testing	138
Chapter 10:	Delivery Interventions	147
Chapter 11:	Conclusions	163

Appendices:

1) Maps:

- a. Newcastle Residential Value Areas
Gateshead Residential Value Areas
- b. Newcastle Commercial Value Areas
Gateshead Commercial Value Areas
- c. Newcastle CIL Charging – Residential
Gateshead CIL Charging – Residential
- d. Newcastle CIL Charging - Commercial
Gateshead CIL Charging – Commercial

2) Viability Questionnaire and Responses

- a. 2017

b. 2018

- 3) Viability Stakeholders Breakfast Meeting Note: 18/06/2018
- 4) Persimmon Stakeholder Meeting Note
- 5) Bellway Stakeholder Meeting Note
- 6) HBF note
- 7) BDW note
- 8) RP meeting note
- 9) Bernicia Meeting Note
- 10) BCIS 2018 Article
- 11) BCIS All-in Tender Price Index
- 12) BCIS Economies of Scale Note (2016)
- 13) Residential Baseline Modelling
- 14) M4(2) Sensitivity Analysis
- 15) M4(3) Sensitivity Analysis
- 16) Affordable Housing Sensitivity Analysis
- 17) Low Cost Developer Sensitivity Analysis
- 18) -5% Market Value Reduction Sensitivity Analysis
- 19) Build to Rent / Private Rented Sector Sensitivity Analysis
- 20) Commercial Baseline Modelling

1. Chapter 1: Purpose of Report

1.1 In the current economic climate, balancing the provision of infrastructure and affordable housing with the delivery of economic growth presents challenges for many development proposals. The issue of viability is often a key issue for plan - making and decision makers to grapple with.

1.2 This report has been prepared to support part three of the Gateshead Local Plan, *Making Spaces for Growing Places* (referred to as MSGP), and part two of Newcastle's Local Plan, the *Development and Allocations Plan* (referred to as DAP). These documents follow on from the Gateshead and Newcastle Core Strategy and Urban Core Plan (referred to as CSUCP). The report provides evidence on viability and delivery matters, building upon the approach taken in the NewcastleGateshead Viability Assessment (May 2012), the Gateshead and Newcastle Viability and Deliverability Report (February 2014), and the Gateshead and Newcastle Viability and Deliverability Report Annex Update (February 2016). The report assesses the cumulative impact on viability of policies and proposals in both authorities Local Plans to ensure that they are deliverable, in accordance with Paragraph 34 of the NPPF. Specifically, the report will seek to:

- Test the policy costs resulting from MSGP and DAP (cumulatively with other known costs, including the Community Infrastructure Levy (CIL), for example);
- Test the viability of MSGP and DAP site allocations;
- Consider issues and evidence raised as part of stakeholder engagement; and
- Provide evidence of our ability to deliver proposals and policies.

2. Chapter 2: Background to Viability and National Policy Changes

2.1. In July 2018 the updated National Planning Policy Framework (“NPPF”) and Planning Practice Guidance (“PPG”) on viability were published, superseding previous versions. These documents reiterated the importance of viability in plan-making, confirming that Local Authorities should seek to ensure emerging policies are set at achievable levels that do not financially undermine development sites being brought forward.

2.2. These newly published documents build on established viability concepts and also a consultation process undertaken by central government. By way of context this chapter summarises the background to the recent NPPF / PPG changes.

2.3. Viability Testing Local Plans – Local Housing Delivery Group (“Harman Review” – June 2012)

2.3.1. This is a key document for providing technical guidance on how to undertake an area wide viability study and was created immediately following the introduction of the National Planning Policy Framework (‘NPPF’).

2.3.2. The document therefore provides an interpretation of the NPPF and how this should be implemented in a technical way when undertaking plan wide viability testing. A number of key principles (reinforcing the NPPF and Planning Practice Guidance) are discussed in detail, including:

- The cumulative impact of plan policies rather than policies considered in isolation.
- The necessary balance between local infrastructure requirements and the economic realities of development.
- Collaboration with partners / stakeholders who are active in the local market, which should help mitigate the risk of making unrealistic assumptions in the modelling.

- The plan viability testing can only provide a high-level view, it cannot guarantee that all sites will be viable (and therefore those that are deemed to be unviable at the planning application stage should be dealt with through an individual viability assessment as appropriate).
- An iterative approach is important to show the impact policies can have which will help inform the final decisions on policy levels.

2.3.3. The Harman Review defines development viability as follows:

An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.

2.3.4. With regards to evidence, the Harman Review states, “An early task should therefore be to review existing assessments and their evidence bases, to determine what can be used or developed further as part of the plan-wide viability assessment”. Past viability studies can therefore form part of the evidence base.

2.3.5. Regarding methodology, the Harman Review advocates the use of the “residual valuation” method, which is a core valuation approach as set out by the Royal Institute of Chartered Surveyor (“RICS”). This is discussed in more detail in Chapter 6.

2.3.6. Detailed commentary is provided various aspects of implementing the residual method, however there is a particular focus on Threshold Land Value (which is the same as the Benchmark Land Value or BLV), stating:

Pg 29 – “We recommend that the TLV [same as BLV] is based on a premium over current use values [same as Existing Use Value or EUV] and credible alternative use value...”

Pg 30 – “It is widely recognised that this approach [i.e. a percentage increase over the EUV] can be less straight forward for non-urban sites or urban extensions, where landowners are rarely forced or distressed sellers...This is particularly the case in relation to large greenfield sites...Accordingly, the uplift to the current use value sought by landowners will invariably be significantly higher than in an urban context and requires very careful consideration”.

- 2.3.7. The guidance therefore recommends a clear methodology for determining the BLV, which is to apply a premium to the EUV of the land.
- 2.3.8. However, the guidance recognises that this is more straight forward for urban / brownfield sites, where a premium (perhaps in the order of 10% – 50%) is deemed sufficient to incentivise a landowner to release the land for development. However, this would not be the case for non-urban / greenfield land where the current use value may only be a modest agricultural value (for example £20,000 per Ha). For this greenfield land, clearly an uplift of 50% (or £10,000 per Ha) would not be sufficient to release the land for development. The uplift would need to be considerably more.
- 2.3.9. In this regard, the guidance only highlights the recommended method for determining the BLV, it does not seek to fix parameters as to how the method is applied. Instead, the guidance is clear that the assessor should adopt an evidence-based approach when seeking to establish the level of premium appropriate above a EUV:

Pg 30 – “...local sources should be used to provide a view on market values (the ‘going rate’), as a means of giving a further sense check on the outcome of the current use value plus premium calculation”.

Pg 30 – “...for sites of this nature [i.e. greenfield], it will be necessary to make greater use of benchmarks, taking into account local partner views on market data and

information on typical minimum price provisions used within developer / site promoter agreements for sites of this nature”.

- 2.3.10. In this regard, direct evidence of agreed BLV’s can be the main focus of the assessor, with land transactional evidence acting only as a general ‘sense check’.
- 2.3.11. In terms of identifying other appraisal inputs for the purposes of the viability testing, the Harman Review also references revenue, build costs, fees, marketing costs, finance etc. it states that these should be based on current costs and values and an evidence-led approach should be adopted (i.e. tangible data should inform the conclusions).

2.4. Financial Viability in Planning – RICS Guidance Note 1 – Aug 2012

- 2.4.1. The purpose of this guidance note is more focused on individual viability assessments. However, there are still key principles discussed in the document which are to be adhered to when undertaking area wide viability assessments.
- 2.4.2. In accordance with the Harman Review, the RICS Guidance Note suggests that the residual method is the most appropriate valuation method for undertaking viability assessments (discussed in Chapter 6). An assessor therefore needs to identify a variety of appraisal inputs when preparing the modelling, which it suggest should be identified through tangible evidence.
- 2.4.3. Again, there is a focus on site value, which is typically one of the most controversial elements of a viability assessment:

Para 2.3.2. Box 7 – “Site value should equate to the market value subject to the following assumption: that the value has regard to the development plan policies and all other material planning considerations and disregards that which is contrary to the development plan”.

2.4.4. Site value therefore must reflect the plan policies and should not, therefore reflect the unrealistic requirements of a particular landowner.

2.5. Housing White Paper “Fixing our broken housing market” (February 2017)

2.5.1. This White Paper proposes a number of reforms to the housing market, principally focused on increasing the supply of new dwellings.

2.5.2. The drive behind the White Paper was the government’s commitment to boosting annual housing supply to between 225,000 and 275,000. The Paper outlines 4 steps to achieving this:

- (i) Planning for the right homes in the right places, mainly through the use of local and neighbourhood plan policies.
- (ii) Building homes at a quicker rate, principally through addressing skill shortages, development management efficiencies and by linking infrastructure with housing development.
- (iii) Diversifying the housing market, by focusing on boosting small to medium-size builders, promoting more varied forms of tenure and encouraging ‘modern methods of construction’.
- (iv) Helping people now, by meeting the diverse housing needs of the population.

2.5.3. With regard to plan making, the main thrust of the Paper is in relation to speeding up the plan making process. However, it also proposes to introduce a requirement for local authorities to review their plan every 5 years to ensure they are up to date with any relevant changes.

- 2.5.4. There is also a focus on brownfield land and applying a greater weight to the use of brownfield sites for homes. This is connected to a general commitment in the document to protect the greenbelt, which should only be built on in “exceptional circumstances”.
- 2.5.5. A key proposal which could impact on viability testing relates to “Starter Homes”. These would be houses available at 80% of the market value, available only to first time buyers, with incomes less than £80,000 and up to a maximum of £250,000 (outside London). The intention would be for “local authorities to deliver starter homes as part of a mixed package of affordable housing that can respond to local needs and local markets”. In other words, Starter Homes would be provided alongside established affordable housing tenures (such as affordable rent and intermediate), rather than instead of. The White Paper goes on to say that there is an intention to amend the NPPF to introduce a policy which states that all sites should provide a minimum of 10% affordable home ownership units.

2.6. Autumn Budget (November 2017)

- 2.6.1. In addition to the Housing White Paper, at the Autumn Budget in November 2017 the Government announced a number of other measures, including:
- Minimum densities for new housing in city centres and around transport hubs.
 - Policy changes to support conversion of empty space above high street shops and convert retail and employment land into housing.
 - Permitted development rights to allow demolition of commercial buildings where they are being replaced with new homes.
 - Consultation on strengthening policy to ensure that land allocated in local plans that has no prospect of a planning application is deallocated.
 - An expectation on Local Authorities to bring forward smaller sites (which should make up 20% of housing supply).



- Consultation on reforming CIL and the setting of rates which “better reflect the uplift in land values between a proposed and existing use”.
- Indexation of CIL rates to link house price inflation rather than build costs.
- Removal of restrictions to the ‘pooling’ of Section 106 contributions, in certain circumstances.

3. National Policy Guidance and Legislative Context

3.1. National Planning Policy Framework (“NPPF”)

3.1.1. The NPPF sets out the Government’s planning policies and how these should be applied in plan making. The latest version was published in July 2018.

3.1.2. The NPPF states that developer contributions are to be expected from development:

***Para 34** – Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.*

3.1.3. The NPPF also explicitly refers to viability on a number of occasions. The key paragraphs are stated below:

***Para 57** – Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.*

***Para 67** – Strategic policy-making authorities should have a clear understanding of the land available in their area through the preparation of a strategic housing land*

availability assessment. From this, planning policies should identify a sufficient supply and mix of sites, taking into account their availability, suitability and likely economic viability. Planning policies should identify a supply of:

- a) specific, deliverable sites for years one to five of the plan period; and*
- b) specific, developable sites or broad locations for growth, for years 6-10 and, where possible, for years 11-15 of the plan.*

Para 76 – *To help ensure that proposals for housing development are implemented in a timely manner, local planning authorities should consider imposing a planning condition providing that development must begin within a timescale shorter than the relevant default period, where this would expedite the development without threatening its deliverability or viability. For major development involving the provision of housing, local planning authorities should also assess why any earlier grant of planning permission for a similar development on the same site did not start.*

- 3.1.4. The general tone of the NPPF regarding viability is that the policies set by Local Authorities through their plan-making should be set at levels which do not undermine the viability of development. The NPPF is clear that there is a finite level of available monies derived from development which can be used to meet policy requirements. If the Local Authorities set their policies above this finite threshold, then this will undermine scheme delivery. Policies should therefore be carefully considered and set at realistic and deliverable levels.
- 3.1.5. With regard to affordable housing, the NPPF now explicitly refers to mix of tenure and sets a minimum expectation by stating that at least 10% should be made available for affordable home ownership. There are some exemptions, albeit viability is not referred to as being a reason which qualifies as an exemption (therefore this requirement also applies to sites located within low demand areas).

Para 64 – *Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions to this 10% requirement should also be made where the site or proposed development:*

- a) provides solely for Build to Rent homes;*
- b) provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);*
- c) is proposed to be developed by people who wish to build or commission their own homes; or*
- d) is exclusively for affordable housing, an entry-level exception site or a rural exception site.*

3.1.6. In Annex 2 the types of dwellings that constitutes ‘affordable housing’ is also set out, which includes the following:

- (a) **Affordable housing to rent:** meets all of the following conditions: (a) the rent is set in accordance with the Government’s rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).*
- (b) **Starter homes:** is a specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-*

making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used.

- (c) **Discounted market sales housing:** *is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.*
- (d) **Other affordable routes to home ownership:** *is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to Government or the relevant authority specified in the funding agreement.*

3.2. Planning Practice Guidance (“PPG”)

3.2.1. This is an online tool, which has been regularly updated in recent years. This seeks to provide planning guidance in the context of the NPPF, covering a variety of areas including: CIL, Planning obligations, Housing – optional technical standards, self-build and custom housebuilding and Starter Homes (amongst others).

3.2.2. Alongside the publication of the latest version of the NPPF in July 2018, the government also published updated guidance (through the PPG) on viability). This is split into 4 sections, as follows:

Section 1 – Viability and plan making

Section 2 – Viability and decision making

Section 3 – Standardised inputs to viability assessment

Section 4 – Accountability

3.2.3. We have summarised what we consider to be the key points raised in each section, as follows:

Section 1 – Viability and plan making

- Plans should set out the contributions expected from development. This includes affordable housing and infrastructure (e.g. education, transport, health etc).
- Affordable housing requirements should be expressed as a single figure rather than a range.
- The role of viability assessment is primarily at the plan making stage.
- It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies.
- Drafting of plan policies should be iterative and informed by engagement with stakeholders.
- The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan.
- Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage.
- It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant.

Section 2 – Viability and decision making

- Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable.
- It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

- Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.

Section 3 – Standardised inputs to viability assessment

- Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available.
- With regards to revenue, for viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used. For broad area-wide of site typology assessment at the plan making stage, average figures can be used.
- Assessment of costs should be based on evidence which is reflective of local market conditions. Costs include build costs, abnormals, site-specific infrastructure, policy requirements, finance, professional fees and marketing.
- Explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.
- To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. This should reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees. This should also be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing.
- Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the

price paid for land (or the price expected to be paid through an option agreement).

- Existing Use Value is the first component of establishing the benchmark land value. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. The premium (or the 'plus' in EUV+) is the second component of benchmark land value. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.
- For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used.
- For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.
- The economics of build to rent schemes differ from build for sale as they depend on a long-term income stream. Scheme level viability assessment may be improved through the inclusion of two sets of figures, one based on a build to rent scheme and another for an alternative build for sale scheme.

Section 4 – Accountability

- The inputs and findings of any viability assessment should be set out in a way that aids clear interpretation and interrogation by decision makers.
- Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.
- In circumstances where it is deemed that specific details of an assessment are commercially sensitive, the information should be aggregated in published viability assessments and executive summaries, and included as part of total costs figures

4. Background: Joint Core Strategy and Urban Core Plan and CIL Testing

4.1 Chronology of Previous Viability and Deliverability Reports

- 4.1.1 This Viability and Deliverability Report elaborates on the viability methodology approach taken in the NewcastleGateshead Viability Assessment (VA) (May 2012) report, considers matters raised as part of stakeholder engagement, reviews the results of site testing and policy cost implications, and finally, provides evidence of our ability to deliver our proposals and policies. It will form a third and final tier to the viability assessments supporting Gateshead and Newcastle's Local Plans.
- 4.1.2 The first tier of viability assessment is comprised of the Gateshead and Newcastle Viability and Deliverability Report, which was published in February 2014 and forms part of the Gateshead and Newcastle Core Strategy and Urban Core Plan (CSUCP) Evidence Base. This document assessed the viability of policies within the CSUCP in accordance with the most up to date and relevant guidance available at the time.
- 4.1.3 This was followed by the second tier of viability assessments, the Gateshead and Newcastle Viability and Deliverability Report (February 2014) Annex Update, published February 2016. This built on the initial viability report, taking the now adopted CSUCP policies into account, and also assessing the viability of adopting the Community Infrastructure Levies (CIL) within Gateshead and Newcastle. The document demonstrated that adopting the CIL would be viable and so the charge was adopted by Newcastle Council in November 2016.
- 4.1.4 This final report will assess the cumulative viability of the CSUCP, CIL, and also the cost of policies set out in Gateshead's Making Spaces for Growing Places (MSGP) and Newcastle's Development and Allocations Plan. A consistent approach has been taken across each of the three viability and deliverability reports, with updates where required to reflect current market conditions and some variation as required by national policy or updates in relevant guidance.

- 4.1.5 The DAP will form Part 2 of Newcastle’s Local Plan, following on from the CSUCP’s strategic approach by outlining more detailed policies and specific allocations designed to facilitate delivery of the CSUCP. Its policies are set out over five sections: economic prosperity, homes, transport and accessibility, people and place, and infrastructure and delivery. Not all policies within the DAP will bear a cost, however, it is important to consider the plan as a whole alongside the existing requirements of the CSUCP and CIL, in order to be sure that the cumulative burden of costs will not unduly constrain development.
- 4.1.6 Gateshead’s MSGP will form part 3 of Gateshead’s Local Plan and sets out more detailed policies and site allocations to assist with delivery of the CSUCP. Its policies are set out over six sections: Economic Prosperity; Homes; Transport and Accessibility; People and Place; and Minerals and Waste. As with the DAP, the viability implications of proposed policies in MSGP which will result in a cost on development has been tested along with other costs attributable to policies in the CSUCP and the CIL, to ensure that sites and development are not unduly constrained.
- 4.1.7 In order to consider the viability of the DAP and MSGP as the final cumulative costs to be imposed on development, it is necessary to review how viability was assessed as part of the preceding two reports, and what they concluded.

4.2 Core Strategy and Urban Core Plan

- 4.2.1 This first report was based on well-recognised principles of residual value, set out in the most relevant guidance at the time. This methodology provides a residual value after all other costs have been taken into account. The formula for this is as follows:

Table 4.1: Residual Value Formula

Equation Value	Gross Development Value	–	Development Costs	=	Residual Value	–	Threshold Value	=	Headroom
Definition of Term	Value of the completed scheme	–	Build cost, fees, finance, profit	=	The resulting value	–	Existing Use Value + sufficient amount to induce landowner to sell	=	The resulting value

- 4.2.2 Subtracting the threshold value (the existing use value plus sufficient additional value to encourage the landowner to sell) from the residual value can then provide the headroom, or remaining value once other costs have been taken into account. Identifying the Threshold Land Value (TLV), also known as Benchmark Land Value (BLV) is therefore critical to this process and to the overall viability of the plan.
- 4.2.3 The document makes reference to a number of key, well-established documents in building the case for the viability of the plan: the HCA's Area Wide Viability Model User Manual (2011), RICS' Financial Viability in Planning (August 2012), and the 'Harman Report' – Viability Testing of Local Plans – Advice for Planning Practitioners (Local Housing Delivery Group, June 2012). The Area Wide Viability Model incorporates these documents' guidance by:
- Offering three options for setting a BLV
 - Using comparable evidence where possible, with reference to transactions and published data
 - Incorporating a 'viability cushion' to avoid reliance on sites with marginal viability
- 4.2.4 The Harman report indicates that the primary role of a Local Plan viability assessment is to provide evidence that NPPF requirements are met; i.e., that the policy requirements for development set out within the plan do not threaten the ability of the sites and scale of that development to be developed viably. It is not always straightforward to cost different policy requirements; however, it is important to attempt to consider the impact of all policies that may result in a development cost or benefit. The results of this assessment are not intended to be a perfect or precise answer and viability assessments are likely to be required at application stage.
- 4.2.5 The NPPF requires a rolling supply of housing sites with a "realistic prospect" of being delivered to provide five years' worth of housing, with a further supply of sites with a "reasonable prospect" of being developable for years 6-10 and, where possible, years 11-15.

- 4.2.6 The methodology assumed a significant increase or uplift over EUVs. The BLV was considered to be £12,500-£19,000 per hectare for greenfield sites and 40% of the equivalent benchmark land value for urban/sub-urban sites. The Councils attempted to estimate the expectations of landowners, which in reality differ from property to property. It was also noted that land values could fall if CIL were adopted.
- 4.2.7 The residential assumed costs, including build costs, professional fees and marketing costs, to be 20% on GDV for residential schemes and 20% profit on cost for commercial schemes. Different notional schemes were set out across the different viability zones for testing; for residential schemes, this consisted of a one unit scheme, a 15 unit scheme, a 50 unit scheme and a 100 unit scheme. For employment 4000sqm of city centre offices were tested, as well as 2,000sqm of neighbourhood offices and 11,000sqm of city centre retail.
- 4.2.8 There are 5 identified and distinct residential viability profile areas in both Newcastle and Gateshead - they are Low, Low Mid, Mid, High Mid and High. In addition there are 3 commercial viability profile areas identified.
- 4.2.9 Consultation with stakeholders raised a few main areas of concern: the costs of residential schemes, the residential sales value, and the quantification of benchmark land values (especially in the high mid profile areas). Where these issues could not be resolved, it was considered that the divergence of views need not affect the overall viability of the stakeholders' sites to be allocated in the plan.
- 4.2.10 The report found that there was a 'relatively significant affordability cushion' for residential schemes, and found positive residual value and headroom for city centre commercial offices. There was negative residual values and headroom for offices in outlying areas, though this was considered to reflect market conditions at the time. It was also noted that though the authorities are not property developers, they could seek to facilitate development by preparing the planning framework, seeking interventions and considering mixed uses where appropriate to help subsidise

economic development. This was deemed an appropriate approach by the Planning Inspectorate as outlined in para 41 of the CSUCP examination report:

Objectors had two main areas of concern about the SHLAAs. The first is the deliverability of sites in low and low-mid areas of demand, where viability is a significant issue. However, many of these sites are in public ownership and the Councils have demonstrated a strong commitment to obtaining finance and bringing them forward. There is evidence of successful joint venture partnerships with the private sector and, given the Councils' willingness not to always require the best financial reward, there is a reasonable prospect that most of these sites will deliver.
(paragraph 41, CSUCP Inspector's Report, February 2015)

4.2.11 The CSUCP didn't propose significant policy costs but focussed on facilitating delivery with associated enabling and essential infrastructure alongside affordable housing set out within policy CS11.

4.2.12 A number of measures to improve viability of residential and commercial areas were proposed, including preparation of a City Deal Housing Investment Plan and applying for funding through the LEP, Growing Places Fund, and Regional Growth Fund. The North East Investment Fund, it was proposed, would operate as a revolving investment fund to support development.

4.2.13 The Core Strategy is cited as a means of facilitating employment growth, and a Local Development Order on Walker Riverside Enterprise Zone simplified the process of securing planning permissions for economic activity. The ERDF and Single Programme have also funded economic development in Gateshead's urban core.

4.2.14 The report touched on proposals to create a new Combined Authority, which would take a co-ordinated approach to tackling the region's issues, centralise evidence, facilitate closer partnership working and lead to an overall improvement in economic conditions in the area. This is now coming forward in the form of the North of Tyne

Combined Authority which will include Newcastle, North Tyneside and Northumberland Councils. This is likely to take shape within the next year.

4.2.15 The Councils would be able to use the July 2012 New Development Deal with the government to retain all growth in business rate income across the Accelerated Delivery Zone sites for 25 years. This allows the Councils additional capacity to borrow funds for economic infrastructure in key employment growth sites.

4.3 Update for CIL

4.3.1 The purpose of this report was to supplement and update the previous report to support the Plan and its examination. The report considers key principles of PPG on viability, DCLG Land Value Estimates for Policy Appraisal, the RICS research paper Financial Viability Appraisal in Planning Decisions: Theory and Practice (April 2015), and the 2015 Summer Budget Statement.

4.3.2 There was a consistency of approach to the methodology adopted for viability testing for both the joint plan (CSUCP) and the Community Infrastructure Levy preliminary draft charging schedules for both authorities.

4.3.3 The methodology used for this viability assessment was amended slightly from that used for the joint plan. Two stakeholders had requested that the residential threshold values used by the Councils be adjusted. As a result the Councils reviewed the available evidence and the percentage adjustment from the residential profile areas (zones) was increased from 30% to 40%. In the High Mid area this adjustment increased from £564,000, to £600,000 per hectare.

4.3.4 A further review was undertaken in 2015 to take into account the most up to date PPG and data. Three main areas were reviewed. First, policy and CIL costs, where it was understood as a result of NPPF para 173 that abnormal costs could be considered as land costs. It was also considered (following the examiner's comments at the Greater Norwich CIL examination in 2012), that BLV could be reduced by up to

25% as a result of the proposed adoption of the CIL. Second, comparable market evidence was reviewed. It was noted that the local transaction data averages at £110,705/hectare for outlying areas within the High Mid and Mid green belt /green belt release areas in Newcastle and £141,814/hectare in Gateshead, primarily for residential purposes. Third, the approach to EUV was reviewed, and the value of green belt release sites was increased to £21,000 per hectare (from £15,000).

4.3.5 For residential scenarios the assumptions are generally consistent with annual monitoring reports and the Strategic Housing Land Availability Assessment (SHLAA) data evidence that underpinned the Core Strategy and Urban Core Plan. Thus the generic schemes and the development assumptions have largely remained the same and are considered consistent with the Core Strategy and Urban Core Plan. In accordance with normal practice in the area the Councils have assumed a benchmark value methodology that is based on net site area to derive a threshold value. A margin of error has been built into the threshold value to allow for a viability 'buffer' and facilitate development delivery throughout the economic cycle. Rent free periods were increased from 15 months to thirty months (3 months rent free for every unbroken year of a lease, with leases assumed to be 10 years).

4.3.6 Site specific testing of the non-urban strategic sites, or Strategic Land Review (SLR) sites, was undertaken. The results of the SLR sites were used as these have been tested as 'real' examples of the developments likely to come forward. All high-mid sites tested were found to have significant headroom, even after s106 and CIL costs were deducted. Strategic sites in mid viability areas were found to be more challenging, to the extent that the Councils consider that an additional development cost could potentially have an effect on the viability and deliverability of the schemes.

4.3.7 This report also included a specific section on Newcastle Central Area and Gateshead Central Area. For Newcastle, numerous constraints (e.g. 836 listed buildings within Central Conservation Area) meant that there was not sufficient certainty of sufficient

headroom to justify a CIL charge. Significant new development in the city centre, as opposed to refurbishments, had needed public sector funding to come forward. New office supply had been provided in Science Central and Stephenson Quarter, both of which required public sector support. There was no large scale retail development coming forward in its entirety and it was determined that any additional CIL charge would exacerbate this problem.

4.3.8 For Gateshead, the viability of retail development within the town centre was also marginal and have been further challenged by introduction of additional costs. Gateshead Commercial (Central Area) Zone was established to remove some of the uncertainty associated with new retail development in Gateshead.

4.3.9 The adopted CIL charging maps are included in Appendix1 (c&d), whilst the schedules and maps for both authorities can also be viewed on their respective websites using the following links:

- [Gateshead Community Infrastructure Levy](#)
- [Newcastle Community Infrastructure Levy](#)

5. Stakeholder Engagement (Local Plans)

5.1 National Policy

5.1.1 The NPPF sets out the requirement for Local Plans to seek ‘Early and meaningful engagement’ and be ‘based on co-operation with neighbouring authorities, public, voluntary and private sector organisations’. This viability report forms part of the evidence base supporting the DAP and MSGP. A collaborative approach to assessing plan viability is encouraged by the July 2018 PPG in para 10-002-20180724:

‘It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers’

5.1.2 The Local Authorities are keen to ensure the continued growth of the area and seek to strike the balance between ‘aspirational but deliverable’ policy by engaging with housebuilders and developers. The Councils thus have a local plan that is equitable in achieving public benefits without damaging the ability of the development sector to continue to deliver homes.

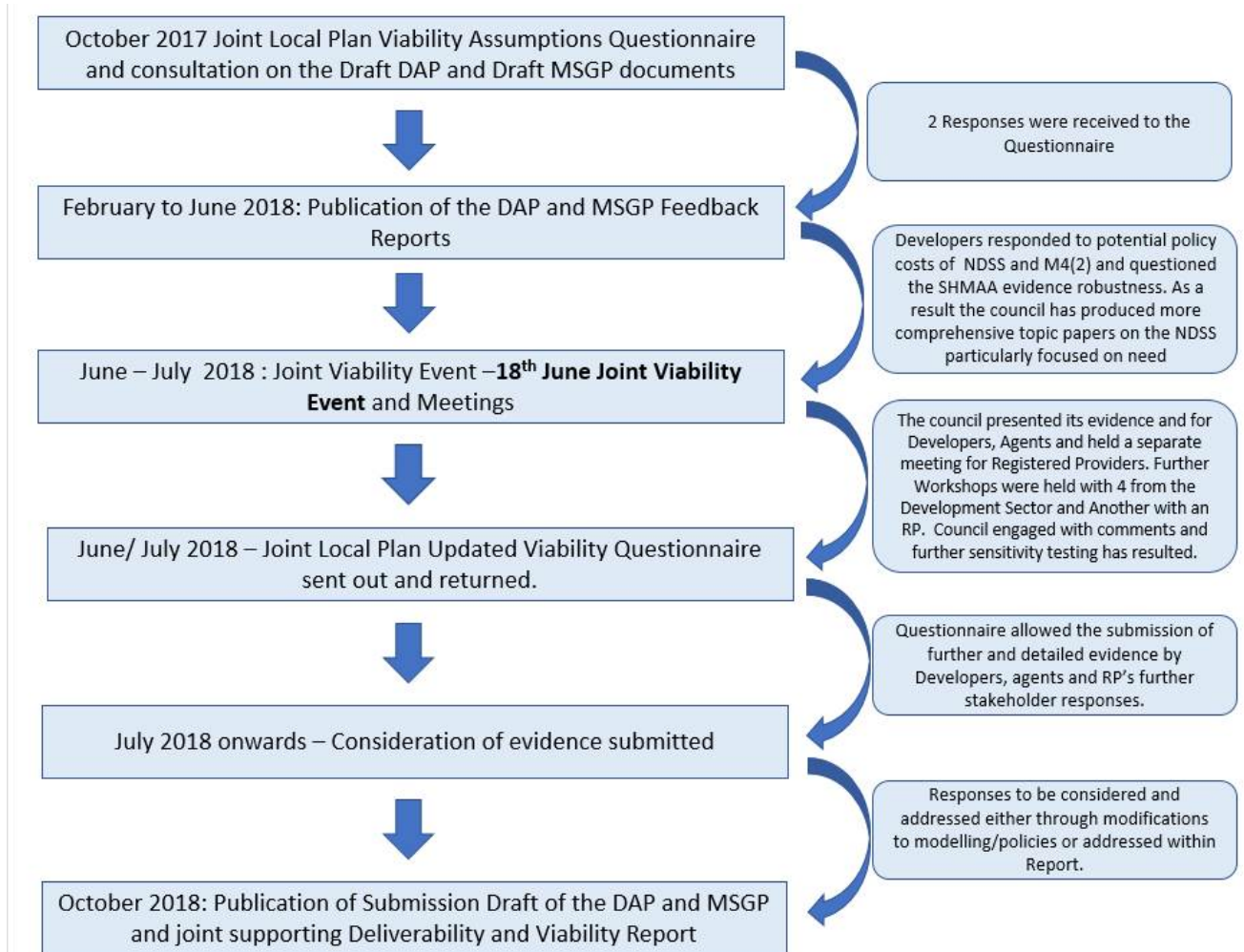
5.2 Chronology of Consultation

5.2.1 Consultation on viability has been an iterative process, in line with the recommendations of the PPG, allowing stakeholders to submit evidence for the councils to consider throughout. Thorough consultation on viability was conducted through the CSUCP and CIL examination and adoption processes, the modelling and main assumptions have been carried through into the viability testing for the local plan evidence base. Summaries of the earlier consultee comments made can be found at para 4.2.9 (for the CSUCP) and para 4.4.5 (for the CIL consultation), however this chapter reviews consultation on the local plans (MSGP and the DAP)

5.2.2 The aim of consultation has not been to reassess the underlying methodology of viability testing, as the basis for this follows on from the methodology used for the

CSUCP and CIL and has been found sound at examination. The focus of consultation has therefore been on new policy costs emerging from local plan policies and their cumulative impact considering existing policy and updated assumptions to reflect changing guidance and market conditions.

Table 5.1: Consultation Timeline



5.3 Regulation 18 Local Plan Consultation 2017

5.3.1 Consultation was performed separately by the councils and was carried out in compliance with planning regulations and the Councils' respective Statements of Community Involvement. Newcastle Council's consultation on the DAP document between 9th October until 20th November; Gateshead Council's MSGP consultation,

working to a later timescale ran between 30th October until 10th December.

5.3.2 Comments regarding viability of both authorities' plans were primarily regarding the NDSS and 25% M4(2) policies, with objectors generally referring to the quality of evidence provided by the Councils and the need to use market evidence. Developers stated that it would constrict the market for housing of a smaller size and lower price, reducing the overall choice of housing, and particularly limiting access to more affordable home ownership. The Councils therefore requested additional evidence from developers to support these assertions. Gateshead did however receive a comment in support of its proposed adoption of space standards from Barratt David Wilson Homes. A summary of the Local Plan consultation comments can be found in each authority's consultation feedback reports which can be viewed using the following links:

- [Newcastle Draft DAP Consultation Feedback Report](#)
- [Gateshead MSGP Consultation Feedback Report](#)

5.3.4 Relatively few other objections regarding viability were made at this stage. Emerging open space policy received some objections for Newcastle Great Park and Ryton Neighbourhood growth site on a site-specific basis because this might change the viability of the site. Both Councils also received responses to the open space requirement that to increase viability, only sites within a ward with a deficit in open space should be required to make open space contributions. The viability of the open space policies is covered within chapter 7.2 of this report. Concerns were also raised within Gateshead that reliance on Brownfield sites of marginal viability may affect the deliverability of the plan and that more greenbelt sites should be allocated to ensure plan delivery targets are met.

5.4 Local Plan Viability Questionnaire (2017 & 2018)

5.4.1 As part of the wider consultation on both consultation draft plans, a questionnaire on the Councils' viability assumptions was circulated in 2017 and then again in 2018. The 2017 survey contained 10 questions covering key assumptions, such as assumed

residential sales values, Benchmark Land Values, build costs and commercial development assumptions. The aim was to offer an opportunity for stakeholders to contribute alternative evidence should the assumptions be considered inaccurate or plan costs make development unviable.

- 5.4.2 Respondents questioned assumed costs and fees, particularly abnormals and externals, as well as anticipated sales values, whilst clarification was sought over the classification of 'urban' and 'rural' sites.
- 5.4.3 The 2018 survey reflected on responses to the previous survey, the changing policy context in terms of the proposed changes to the NPPF and PPG documents, and changing market conditions. Updates were made to sales revenue achieved per square metre across all value zones, and BLVs in mid and low-mid market areas, reflecting market changes. The most up to date BCIS data was also used. The changes listed are not exhaustive.
- 5.4.4 Submissions were received from 4 organisations in July 2018, including 2 developers, 1 registered provider and the HBF.
- 5.4.5 **Residential Values:** 2 Respondents suggested that the sales values achieved in value zones was overstated compared to the sales values at which they sell properties, both providing some evidence to show the lower values achieved per sqft. One respondent supporting evidence showed the lower revenues received per square metre in the high value area than indicated within Figure 1 of the 2018 questionnaire. The other respondent submitted 3 sites in different value zones having values below the average square meterage accounted for by the council. The evidence submitted by the latter respondent also indicates lower sales values achieved per square metre for homes with more bedrooms, equating this to larger floorspaces achieving lower values per square metre (See Appendix 2b, Comment 15). The respondent indicated that the council's assumptions had not accounted for the perceived diminishing returns achieved per square foot for properties with larger floorspaces. Respondents also

questioned the floorspace inputs used to calculate revenue floorspaces, it was suggested by a respondent that the use of the GIA has inflated the sales revenues and undervalues the revenue per square metre (See Appendix 2b, comment 9).

5.4.6 NDSS and Land Value/Supply: A respondent submitted further comments regarding the effect of the NDSS on land values and supply, that minimum thresholds will not be met if the price developers are able to pay for land to ensure that development remains viable won't be sufficient to encourage a landowner to sell; it was indicated that the price of must be significantly above the EUV. Supporting case study evidence was produced at the request of a Planning Inspector for the Core Strategies examination of Barking and Dagenham and Eden Valley respectively. In summary the evidence base for affordable housing levels was not seen to have adequately evidenced that the price including uplift which developers were able to pay for a site would be sufficient to convince land owners to release sites. A detailed approach and justification regarding BLV's can be found in section 6.18 of this report.

5.4.7 Affordable Housing: Submissions were made regarding the feasibility of the fixed level of affordable housing transfer values to sales revenue, citing that RP's wont charge higher rents to make the higher costs viable. Two respondents suggested that transfer costs should be fixed with some variation given corresponding to the value area, the transfer costs suggested by one respondent (Appendix 2b, comment 33) were:

Value area	2 bed	3 bed
Low	£65,000	£75,000
High	£75,000	£85,000

The other respondents transfer values were similar amounts. A similar sentiment of the inability for Registered providers to pay higher prices in the value areas due to limited ability to charge corresponding higher rents.

5.4.8 Other key issues highlighted by respondents through the 2018 Questionnaire:

- Clarity was requested from the Councils over the methodology behind the BLV, present concern over land supply due to assumed BLV levels.
- Two respondents indicated that the BCIS median should be applied to all value zones rather than build costs varying over value zones.
- A respondent indicated S106 contributions outlined within Figure 9 are too low, 5 examples are provided from across the North-East varying from £554 to £12,400 per hectare s106 with an average of £5,794. The respondent suggests that the average would provide a more appropriate figure for use.
- 2 respondents' indicated variation of build costs across the value region is not suitable and suggest that caution should be taken, with the BCIS median build costs applied across all sites.
- 2 respondents indicated the need for a reasonable lead in period and a build out rate of 35 per year. For a large site this was not considered sufficient for the site to be completed
- 3 comments outlined support for the contingency allowance at 5%, though 2 respondents suggested that there should be no differential and greenfield sites should also be given a 5% contingency allowance.
- 3 responses stated that they supported the inclusion of externals, however indicated that this should be higher than the 10% allocated. Site specific examples were submitted to support this from 2 responses, however supporting evidence behind the figures was not submitted.

5.4.9 Copies of the 2017 and 2018 questionnaires together with comments and response summaries can be found in appendix 2a and 2b respectively, and the issues raised are further covered within chapters 6 and 7 of this report.

5.5 Viability Stakeholder Event 18th June 2018

5.5.1 A breakfast event was arranged to present the viability assessments and discuss the viability implications of Gateshead's MSGP and Newcastle's DAP offering an opportunity to comment for key stakeholders. The event allowed the councils to introduce a number of updates to the viability methodology and the justifications

behind them, with a focus on the most recent changes to national policy within the draft NPPF, Autumn 2017 Budget and Housing White Paper (outlined within Section 2 and 3 of this report).

5.5.2 Invitations were sent to those who had made comments regarding the viability of either or both plans as part of the authorities' consultation, as well as individuals and groups who had indicated that they wished to be contacted about further planning policy developments in both authorities' consultation databases. A total of 274 invitations were sent out with 24 attendees representing 18 organisations attending the 18th June meeting at Gateshead Civic Centre. A separate meeting was organised to consult with Registered Providers (see section 5.8)

5.5.3 The presentation was well received; however, questions were raised on how viability will be considered within the allocation of sites and the anticipated affect this will have on land values; the Councils confirmed that land values are anticipated to absorb costs, such as abnormal costs, for example. The EPC (Energy Performance Certificate) data underpinning the dwelling size assumptions used for sales rate within the 2017 Questionnaire was brought into question. Developers indicated that the EPC floorspace doesn't account for integral garages, therefore doesn't include the cost of increasing net area for housing with garages, inflating sales per sqm and reducing sales area. Greater sensitivity testing was carried out on the viability appraisals to take account of housing including integral garages. Justification of the use of EPC data can be found at in the next section within para 6.9.4. Concerns were also raised about the M(4)2 and if the Councils had considered the potential effect on house plots of using EPC data to measure homes. A note of the meeting is included in Appendix 3.

5.6 Developer Meetings, June/July 2018

5.6.1 Following the breakfast meeting individual meetings with developers were held to provide an opportunity for more in-depth discussions. Invitations were sent out to stakeholders within the development industry who had to the consultation of the local plans. In total 9 invitations were sent out to developers who had previously sent in

substantial representations regarding viability, with 4 stakeholder meetings taking place, summaries of which can be found in Appendices 4 to 8.

- 5.6.2 **NDSS: The introduction of Space Standards** remained the issue that came up consistently with viability stakeholders as seen with responses to the local plan; the evidence base was again questioned by 4 of the stakeholders for the NDSS with continued criticism that at present there isn't sufficient evidence identifying need, whilst non-compliant NDSS house types are selling well in the new and second-hand market. One respondent indicated that its most popular house type is 20% below NDSS level, suggesting high demand for these products. Further evidence was requested from the Council to substantiate this response. The justification of need as requested by developers from DAP and MSGP as well as stakeholder meetings has seen the councils undertake more detailed evidence for their own authorities to support the pre- submission drafts of MSGP and DAP respectively.
- 5.6.3 The principle that developers will be able to pass on some of the increased build costs to the purchaser, if not the level, was accepted by most of the respondents. One respondent agreed with the Councils' assumption that almost the full increased build cost will be able to be passed onto the consumer, but indicated a knock-on effect of this might be the exclusion/delay of first time buyers into homeownership and reduced sales rates. Alternatively, 2 other stakeholders indicated that larger floorspaces can't be assumed to achieve the same price per sqm for NDSS compliant homes as buyers may not be able or willing to pay higher values that correspond to build costs. Concern was also raised that higher floorspaces would accrue higher CIL charges, despite the overall viability falling. Cumulatively with M4(2) requirement of the local plan it was suggested by a respondent that it would cost £12,000 a unit to implement, the council requested further evidence to demonstrate this. The council's justifications regarding the viability of the NDSS are addressed in Chapter 7 of the document.
- 5.6.4 A notable trend was raised that affordable homes built by housebuilders were frequently let by Registered Providers at rent levels of houses with less bedrooms. This

was because of the restrictive sizes of bedrooms in affordable properties built by housebuilders. Concerns from all respondents were raised that larger footprints of NDSS compliant homes would reduce which would result in lower housing yields on sites for developers. A respondent stated that NDSS compliant sister homes of what's already built in the region aren't built in North East due to lower achievable density reducing revenues in comparison to build costs so lowers profit.

5.6.5 NDSS and Land Values: Some stakeholders acknowledged that any costs arising from the NDSS due to density or otherwise would not be covered within the increased property value and would have to be passed on to the land value. Concern was aired that lower land values would inhibit land being made available for purchase therefore reducing overall housing delivery. The EUV plus model endorsed by government guidance also came into criticism from one respondent as not being trusted by the development industry due to being perceived as inaccurate. Two stakeholders indicated that fees had been agreed with landowners based on the assumption of no NDSS and M4(2) meaning that policy costs would have to be borne by developers, meaning that fewer sites could viably come forward. However, it was noted that policy CS11 (internal space and lifetime homes) are part of the adopted development. A detailed approach and justification regarding BLV's can be found in section 6.18 of this report.

5.6.6 M4(2): The need for M4(2) was questioned, one stakeholder indicated that other authorities had struggled at examination to justify the cost compared to adapting existing homes (See Appendix 6). Another respondent had suggested that need has not been established to show that buyers of new build housing will require M4(2). The main concern of this respondent was the costs M4(2) can have on site layouts reducing density, citing a site in North Tyneside where this was the case (See Appendix 5). Further Evidence was requested from the council however no evidence was received from the respondent. Clarity was also sought that the accessible and adaptable policy referred to the M4(2) standard alone, as opposed to both M4(2) and M4(3), and the circumstances in which provision would be required offsite within policy DM6 of the

DAP. Concern with the M4(2) requirement was not universal with a respondent stating that 98% of its homes can be made compliant. The viability of M4(2) has been assessed in paragraph 6.18.

5.6.7 **Implementation Period:** Two respondents raised questions over whether the 12 months transitional arrangement for NDSS and M4(2) would be applied to existing outline permissions at reserved matters stage, or only to outline and full applications received after the policy comes into effect. The Councils indicated clarity would be provided on this at the next consultation stage.

5.6.8 All points raised here are responded to in Chapters 7 and 8 of this report.

5.8 Consultation with Registered Providers

5.8.1 To ensure full engagement with a broad group of stakeholders a specific event was set up with Registered Providers (RPs) operating in the Gateshead and Newcastle areas. A full note of this meeting is included in Appendix 8.

5.8.2 The event with **RPs was held on 18 June 2018**. The purpose of the meeting was to present the viability assessment findings and gauge the thoughts of RPs on the effects of the local plans on the viability of affordable housing. Karbon, Bernicia, Home Group, Places for People, Thirteen Group, Leazes Homes, Riverside Group, Anchor Trust, Durham Aged Mineworkers' Homes Association, Four Housing, Keelman Homes, and Tyne housing were invited. Six RPs were represented at the event. The same presentation was made to RPs as at the preceding developer-focussed meeting, however a greater emphasis was made on elements most relevant to RPs.

5.8.3 RPs supported the implementation of the NDSS policy stating the majority of homes for rent already provide accommodation at around the NDSS size. They hoped that the NDSS policy would increase transfer of stock complying with the standards as some offers from housebuilders include homes deemed to have insufficient internal space. HCA funding procedures/criteria mean that affordable housing which meets the NDSS

is often modelled at affordable rates of rent, whilst affordable housing which does not meet the NDSS is modelled at social housing rates.

5.8.4 RPs were already familiar with M4(2) standards and supported their inclusion. There was consensus that they would be willing to take on compliant houses as the standards could keep down their costs in the long-term. A concern would be that the higher costs of M4(2) would be passed onto Registered Providers by offering RPs the full scheme policy requirement, though the Councils have indicated that within its assumptions the cost should be recovered from land values.

5.8.5 RPs suggested that the BCIS assumptions used were generally correct, however they stated they were slightly on the high side. They were happy with the 6% profit margin used for affordable housing as this was already industry established, however in reality RPs suggested this was higher than what they typically achieved. RPs suggested rent was largely based around affordability for tenants, so RPs do not generally charge much more than local housing allowance. This often-excluded Registered Providers from higher value areas as they could not make up the difference in values by charging higher rent. RPs generally were concerned with land values in lower value areas for often complicated brownfield sites.

5.8.6 A major concern for RPs is the movement towards alternative home ownership methods included within (at the time) emerging NPPF; particularly the proposed move away from affordable rent. However, though it was suggested by RPs that this would increase viability. The proposal was felt to undermine RPs main principles, though they were willing to support the 70/30 split to affordable rent and alternative affordable house types as proposed within the assumptions tested.

5.9 Meeting with Registered Provider

5.9.1 A 1 to 1 meeting with a Register Provider was held for the council to gain a detailed view from a Registered provider. The Registered Provider used was common amongst RP's in the region and primarily operates within the low and mid values zones,

generally expecting build costs to be in line with the Councils' cost assumptions per square metre. A full note of this meeting can be found in Appendix 9.

- 5.9.2 **NDSS**- Support was expressed for higher building standards being required by MSGP and CSUCP, currently its the preference of RP's it to build their own stock due to the Higher build standard with space standards being part of this. The respondent indicated most RP's are building near to the standard required by the NDSS, but have slightly lower costs for 3 and 4 beds due to a smaller average size than NDSS. RP's tend to build properties no smaller than 10% lower than the NDSS. To qualify for HCA funding Registered Providers must build 15% of the NDSS standards. It was indicated that Registered Providers may take stock smaller than 15% below the NDSS when acquiring stock put to tender by developers if its deemed part of a desirable overall package, often meaning the houses were rented out at a rate of a bedroom less due to a lack of space. Support was indicated that adoption of the NDSS would allow all affordable home bedrooms to be utilised as bedrooms benefitting tenants and the Registered Provider
- 5.9.3 **M4(2)** – it was expressed that a range of properties offered for tender by developers would be preferable rather than M4(2) alone, as take up of lifetime homes has been poor. Generally, when accessibility issues arise, the preference for residents is for bungalows rather than remaining in their current home. From a financial perspective there is a fear that developers will try and pass on the added cost of the M4(2) standards to Registered Providers through offering higher proportions of M4(2) and lowering the operating cost.
- 5.9.4 **Affordable Housing Profit** - 6% profit on affordable development was reaffirmed as an agreed precedent in the development sphere and backed by case law. However, RPs viability models are often run at a loss against initial capital outlay for renting in perpetuity when considered over a 30-year period, however residual value of stock is not considered within this.

5.9.5 **Land Values** – RP'S are happy with 55% affordable rent assumption for land values indicated within Figure 1 of the viability Questionnaire for mid values and below, though it was indicated that for mid-level onwards it would become unviable. RP's have around £500,000 - £750,000 outlay on start-up costs and higher land values mean that higher land value would mean RP's cant viably develop a site as affordable rent rates are pegged to local housing allowance rates, which don't rise to match the increase in land values. RPs tend to operate in smaller more complicated brownfield sites in low and mid value areas.

6. Viability Methodology and Assumptions Review

6.1. The Residual Method

6.1.1. This is the recommended valuation method when undertaking viability testing. This is an established valuation approach, which can be illustrated by the following equation:

$$\begin{aligned} & \textit{Completed Development Value} \\ & \textit{(i.e. Total Revenue)} \\ & \textit{Less} \\ & \textit{Development Costs} \\ & \textit{(Developer's Profit + Construction + Fees + Finance)} \\ & \textit{Equals} \\ & \textit{Residue for Land Acquisition} \end{aligned}$$

6.1.2. In other words, to arrive at the land value the assessor assumes the scheme has been completed, and from this income takes away all the costs associated with delivering that scheme. The remaining sum, or 'residual' (if any is left), equates to the value that could be paid for the land based on the development being proposed.

6.1.3. Whilst a simple concept, it is stressed that in reality the residual method often becomes a complicated and detailed approach. This is because the methodology inherently requires a wide variety of inputs to be factored into the assessment, all of which are subject to variance (e.g. sales values, build costs, professional fees, abnormal works, Council policies, profit, marketing, finance etc). All of these inputs need to be considered carefully, as potentially relatively small variances to one or two inputs could have a significant impact on the results of the assessment. This inherent flaw in the methodology is recognised by the RICS and wider industry, and as a result 'sensitivity' testing is recommended to try and minimise the impact of these potential variances. Nevertheless, the industry still considers this to be the

most appropriate methodology for assessing development sites and appraising land value.

- 6.1.4. Furthermore, in undertaking a residual appraisal it is important to factor in the impact that the timings of payments and income can have on funding and cash flow. For this reason, and particularly for more complex developments it is appropriate to use a discounted cash-flow approach when preparing a residual appraisal.
- 6.1.5. The residual method can be applied to both residential and commercial development and is therefore applicable to Local Plan viability testing. We have subsequently utilised this approach.
- 6.1.6. The Harman Review and PPG changes are clear that the appraisal inputs (e.g. revenue, build costs, professional fees, developer's profit etc) should be evidence based and reflect the dynamics of the market being assessed. Stakeholders should be engaged to ensure the adopted inputs are as robust as possible.
- 6.1.7. The residual method allows an iterative approach to be undertaken, as certain appraisal inputs (such as planning policies) can be varied and tested to determine their impact on overall viability. The method is therefore consistent with the requirements of the July 2018 NPPF and PPG.

6.2. Evidence

- 6.2.1. Primary data is crucial to ensuring the viability testing is robust. This can include a variety of sources, such as the Land Registry for residential and land sales, paid for services such as Costar SUITE (providing commercial property rents, yields and capital values), Essential Information Group property Auctions (giving details of land transactions), build cost databanks such as the Build Cost Information Service ("BCIS") part of the RICS, historic viability assessments undertaken within County Durham and the wider region giving parameters for appraisal inputs etc.

6.2.2. Likewise, appeal decisions and Examination in Public for local plans and CIL from the Planning Inspectorate can provide a useful indication of appraisal inputs. However, due to the unique nature of development sites, we do not consider it necessarily appropriate to apply rulings for individual schemes to all projects. Development sites typically have a variety of factors unique to their own particular market and circumstances, which would not necessarily apply to other schemes. That said, rulings through court / planning appeal decisions can be helpful and can be considered alongside other identified evidence.

6.2.3. We have identified a number of cases which we consider to be useful in the context of viability testing:

Parkhurst Road Ltd vs Secretary of State for Communities and Local Government

6.2.4. We are aware of the recent case in the High Court of Justice between Parkhurst Road Limited, the Secretary of State for Communities and Local Government and the Council of the London Borough of Islington (Citation Number [2018] EWHC 991).

6.2.5. The claimant (Parkhurst Road Limited) sought to challenge a previous appeal decision relating to the development of a Former Territorial Army Centre in Islington, London, which had previously been dismissed through a Planning Appeal process. The case involved the examination of a number of key viability issues, most notably in relation to establishing Benchmark Land Values (“BLV”).

6.2.6. Mr Justice Holgate dismissed the appeal and, in his judgement, supported the approach adopted by the Council to establish the BLV of the site for the purposes of the viability appraisal. The method used involved establishing the existing use value and then applying a premium uplift to this figure to arrive at a suitable BLV. This, therefore, broadly supports the approach advocated by the PPG.

6.2.7. However, it is stressed that, due to the unique nature of development sites, we do not consider it necessarily appropriate to apply rulings for individual schemes to all

projects. The Parkhurst Rd Ltd case had a variety of factors unique that its own particular market and circumstances, which would not necessarily apply to other schemes. That said, the ruling does broadly support the PPG changes, which we have taken into consideration in the methodology adopted for the purposes of this study.

Land off Poplar Close, Ruskington, Lincolnshire (APP/R2520/S/16/3150756)

6.2.8. This related to a greenfield site comprising 67 dwellings.

6.2.9. The Inspector ruled that it was appropriate to depart from the BCIS median when identifying build costs, on the grounds that the BCIS data can be considered to be inherently high and did not represent the savings made by larger regional / volume housebuilders in terms of materials and labour.

Land off Flaxley Rd, Selby (APP/N2739/s/16/3149425)

6.2.10. This related to a greenfield site comprising 202 dwellings.

6.2.11. The Inspector went further than the Ruskington decision outlined above and ruled that it was appropriate to depart from the BCIS lower quartile when identifying build costs. Again, this was on the grounds that the BCIS has its limitations as a data set and can be regarded as being inherently high for schemes likely to be implemented by larger regional or volume housebuilders.

Land off Lowfield Road, Bolton upon Dearne, Barnsley (APP/R4408/W/17/3170851)

6.2.12. This related to Phase 3 of a wider scheme and comprised a greenfield site of 97 dwellings.

6.2.13. This case related to the implication of a development in a low value area by a 'low cost developer' specialist (in this case Gleasons, but could also apply to Keepmoat

Homes, Lovell Homes, Kier Homes etc). The Inspector recognised that for this type of development in this location, the developer would implement a different type of product compared to other high value locations. To reflect this, the viability assumptions should therefore be adjusted to take into account: significantly lower base build costs (particularly when compared to the BCIS rates), a higher percentage allowance for external works, lower professional fees and a lower debit interest charge. These adjustments resulted in the scheme being shown to be viable (which was considered to be appropriate as Phase 1 and 2 of the project had been delivered).

6.2.14. The Harman Review indicates that stakeholders should be engaged to ensure the appraisal inputs are reflective of market conditions and are deliverable. In recent years, as part of Core Strategy and CIL viability testing, the Councils have commissioned stakeholder engagement (involving landowners, developers, surveyors, planning consultants, house builders, Home Builder Federation representatives, Registered Providers and other development professionals). These exercises have formed part of the evidence base used in this viability testing.

6.2.15. Finally, we also consider it appropriate to review other area wide studies undertaken on behalf of neighbouring authorities. These provide a useful insight into plan viability testing in the regional market. The studies identified include the following:

- Stockton on Tees: Affordable Housing Viability Study (3 Dragons Oct 16)
- Sunderland: Whole Plan Viability Assessment (HDH Planning Aug 17)
- Northumberland: Core strategy and community infrastructure levy draft viability assessment (Oct 15)
- County Durham: Local Plan viability (draft Apr 18)

6.3. Site Types

6.3.1. The Harman Review states that the types of sites assessed as part of the viability testing should be the likely supply of development of the plan period. Once identified,

these are then tested using the residual method, with comparisons to the separately identified BLV, as outlined above.

6.4. Iterative Approach

- 6.4.1. Having identified appropriate sites for the purposes of the modelling (whether real sites or hypothetical), the residual method is then used, which generates a land value that can be compared to the BLV. As indicated above, if the land value is above the BLV, the scheme is deemed to be viable, if it is below the scheme is unviable.

- 6.4.2. When seeking to determine appropriate planning policy contributions in plan making, the process is as described above and involves running appraisals to test whether the residual land value falls above the BLV (i.e. viable) or whether it falls below the BLV (i.e. unviable). However, in plan making the assessor has the ability to adjust the planning policy contributions which can change the outcome of the appraisal. For example, if an initial appraisal is run at X affordable housing and is shown to be unviable, the assessor can reduce the affordable housing provision to Y and re-run the appraisal to see whether this adjustment makes the scheme viable. For example, if the full aspirational policy provisions are applied and the scheme is shown to be unviable, this would demonstrate that the policy provisions are unlikely to be deliverable (therefore failing to meet the requirements of the NPPF). In this scenario, the policy provisions can be reduced and the scheme re-tested. This can be done on an iterative basis up to the point where the scheme is deemed to be viable. Alternatively, it may be that the aspirational policy provisions are tested and the scheme is comfortably viable, generating a surplus of income. Under this scenario, the policy provision could be increased and the scheme re-tested (again on an iterative basis) until there is a pre-set position of viability is reached. The process is therefore iterative as it involves running numerous appraisals for each site typology.

- 6.4.3. In adopting an iterative approach, it is therefore important to identify 'base' appraisals, from which adjustments can be made. This can either be on the basis of

the full policy aspirations being excluded, and then added back in on an iterative basis up to a pre-determined point of viability. Or alternatively the base appraisals could include the full policy aspirations from the outset, and if the testing shows there is significant viability pressure the policy provisions could be adjusted down again up to a pre-determined point of viability.

6.5. Our Approach

6.5.1. On the basis of the above we have adopted the following approach for the purposes of the Whole Plan and CIL viability testing:

- We have identified hypothetical site types, which we consider to best reflect the future supply of sites across the local authorities (both for residential and commercial development sites). This takes into consideration previous plan wide testing undertaken by the Councils.
- However, for large strategic development sites (say 300 dwellings or more) we consider it appropriate to undertake site specific testing on 'real' identified schemes.
- For each hypothetical site type or real site we have modelled a base development appraisal, inputting the revenue and costs associated with that scheme. This has been modelled in accordance with the residual method, whereby the outcome is the residual land value (with all other inputs fixed costs). The same approach has also been applied to commercial site testing.
- Initially, we look to test base appraisals, building in the emerging policies. If the residual land value is above the BLV, the scheme is deemed to be viable, if below it is deemed unviable.
- Finally, we also undertake sensitivity testing, where key appraisal inputs are varied to test the impact on viability. This aids the overall analysis and ensures that the conclusions reached are as robust as possible.
- In forming our recommendations, a holistic approach is taken to all testing results.

6.6. Scheme typologies – number of dwellings

6.6.1. For the purposes of the Core Strategy and Urban Core Plan viability testing, as well as the CIL testing, the Councils have consistently used the following site typologies:

Site Type 1 – 1 house

Site Type 2 – 15 houses

Site Type 3 – 50 houses

Site Type 4 – 100 houses

Site Type 5 – 100 flats

Site Type 6 – 40 sheltered housing / assisted living flats

6.6.2. This typology approach is complimented by ‘real’ site testing. This is particularly relevant to larger scale developments (say 200 units or more) where there is a likelihood that there would be multiple outlets on site, which changes the dynamic of the viability appraisal. This means that, for large schemes of this scale, we consider it appropriate to undertake bespoke appraisals, rather than relying on typologies. The sites that have been appraised on this basis include the following:

- Scotswood Phase 2, Newcastle circa 1,400 dwellings
- Upper Callerton, Newcastle circa 1,200 dwellings
- Newbiggin Hall, Newcastle, circa 230 dwellings

6.6.3. The site types outlined above are considered to be reflective of the likely site types which would be brought forward during the period of the Local Plan, reflecting ‘owner occupier’ single schemes, small developer projects, regional developer schemes and large-scale development likely to be implemented by national volume house builders. The typologies therefore allow the variations in revenue and costings between these different types of developers (and the impact this has on viability) to be thoroughly tested through the appraisal process

6.6.4. The approach outlined above is also broadly in keeping with the that of other regional local authorities (the only exception being Stockton Borough Council), as summarised below:

Durham County Council (Mar 2018 Draft) – wide variety of sites tested, including 5 dwellings, 20 dwellings, 50 dwellings, 80 dwellings, 125 dwellings, 200 dwelling and 350 dwellings.

Sunderland City Council (Aug 2017) – wide variety of sites tested, including various sub 15 dwelling schemes (including a single dwelling site type), medium sites ranging from 15 to 25 dwellings, large sites ranging from 60 to 175 dwellings, strategic sites providing in excess of 350 dwellings and urban flatted schemes ranging from 20 to 75 dwellings.

Northumberland County Council (Jun 2016 – currently being reviewed and updated) – various sub 15 dwelling schemes (including a single dwelling site type), medium sites ranging from 16 to 20 dwellings, large sites ranging from 40 to 200 dwellings and strategic sites providing in excess of 300 dwellings.

North Tyneside Council (Jun 2016) – small site comprising 20 dwellings, medium site comprising 35 dwellings, large site comprising 100 dwellings and strategic site comprising 400 dwellings

Stockton Borough Council (Oct 2016) – tested a 1ha site and adjusted the level of density from 25 up to 50 dwellings per Ha.

6.6.5. In summary, we support the continued use of the site typologies outlined above, for the following reasons:

- This ensures consistency with past testing and allows changes in market conditions (and its impact on viability) to be accurately gauged.

- The hypothetical site typology approach is complimented by ‘real’ site testing, including larger site assessments (where several hundred dwellings are typically provided).
- The approach is broadly consistent with that adopted by other regional local authorities in their own plan-making assessments.

6.7. Scheme typologies – gross and net site areas (Ha)

6.7.1. In recent viability assessments the Councils have adopted the following site areas:

Table 6.1 – Gross / net areas and units per net Ha

	Gross (Ha)	Gross to net ratio	Net (Ha)	Units per net Ha
Site Type 1: 1 unit	0.03 to 0.04	100%	0.03 to 0.04	
Site Type 2: 15 unit	0.30 to 0.33	100%	0.30 to 0.33	45 to 50
Site Type 3: 50 units	1.33 to 1.39	90%	1.20 to 1.25	40 to 42
Site Type 4: 100 units	3.33 to 4.00	75%	2.50 to 3.00	33 to 40
Site Type 5: 100 flats	0.25	100%	0.25	400
Site Type 6: Assisted Living	0.57	70%	0.40	100

6.7.2. In the notional testing, the approach previously adopted allows flexibility in the testing, as gross and net areas can be adjusted dependent on locational factors (hence the range shown above for some of the site types). For example, in some locations purchasers may be attracted to larger dwellings with larger plot sizes (which would reduce the overall scheme density), whilst in other locations purchaser demand may be more focused on smaller plot sizes (which would increase overall scheme density). The approach outlined above allows this flexibility, recognising that density levels fluctuate over different markets.

6.7.3. In Newcastle and Gateshead 5 residential profile areas have been identified. The profile area maps for both Councils are in Appendix 1a.

6.7.4. In terms of gross to net ratios, the other local authorities can be summarised as follows:

Durham County Council (Mar 2018 Draft) – gross to net ratios range from 80% to 90%.

Sunderland City Council (Aug 2017) – for sites up to 0.4Ha the gross to net ratio is 100%, reduced to 75% to 90% for 0.4Ha to 2Ha. For all schemes over 2Ha the ratio ranges from 50% to 75%.

Northumberland County Council (Jun 2016 – currently being reviewed and updated) – for sites up to 0.4Ha the gross to net ratio is 100%, reduced to 83% for 0.4Ha to 2Ha. For all schemes over 2Ha the ratio is 70%.

North Tyneside Council (Jun 2016) – for sites up to 0.4Ha the gross to net ratio is 100%, reduced to 75% to 90% for 0.4Ha to 2Ha. For all schemes over 2Ha the ratio ranges from 50% to 75%.

Stockton Borough Council (Oct 2016) – not stated

6.7.5. In the context of the above, the majority of the site type assumptions fall broadly in line with the approaches adopted by other local authorities.

6.7.6. With regard to dwellings per net Ha, we have again looked at the approach of other local authorities:

Durham County Council (Mar 2018 Draft) – 30 to 35 dwellings per net Ha

Sunderland City Council (Aug 2017) – 20 to 40 dwellings per net Ha

Northumberland County Council (Jun 2016 – currently being reviewed and updated)
– 30 to 40 dwellings per net Ha

North Tyneside Council (Jun 2016) – 27 dwellings per net Ha

Stockton Borough Council (Oct 2016) – 25 to 50 dwellings per net Ha

- 6.7.7. We have also referred to an in-house database which records individual viability appraisals as prepared by applicants and submitted to CP Viability. The database includes over 100 appraisals from the wider northern and east midlands region of England, showing key viability assumptions made by applicants. Given the sensitive nature of the data we are unable to disclose the full information, however we are able to consider average rates as calculated (which has been accepted as evidence within an appeal setting). It is recognised this offers only an insight into the market and clearly there will be fluctuations from site to site. Nevertheless, this is considered to be useful data and can complement other available evidence.
- 6.7.8. With regards to dwellings per net Ha, there is a wide range of figures shown within the database. For example, for schemes providing between 10 and 50 dwellings, the rate of units per net Ha ranges from 17 (comprising bungalows) up to over 50 units (often involving 2.5 / 3 storey dwellings). Likewise, for schemes providing over 50 dwellings the highest density is shown as 67 units per net Ha (which is from a scheme within a larger urban context).
- 6.7.9. As for evidence of past schemes built out across Newcastle / Gateshead there are examples of higher density schemes within the market place. For example, the Gateshead college site (located within a high viability area) comprised 175 dwellings in total on a net site area of 3.5 Ha, equating to 50 dwellings per net Ha. Furthermore, the Ropery Road site (located within a low mid viability area), comprised 93 dwellings

on a net site area of 2.06 Ha, equating to 45 dwellings per net Ha. This indicates that density rates at this level have been previously delivered across the Newcastle / Gateshead market.

6.7.10. Based on the above, the Councils assumptions on units per net Ha are generally in line with the evidence. However, it is noted that the allowances for the 15 unit site type in particular is toward the top end of the identified ranges. We understand that this allowance has been made specifically to reflect the workings of the Newcastle / Gateshead market, whereby a large proportion of the sites coming forward will be within a major city urban context, where density ratios tend to be higher (i.e. smaller plot sizes). Furthermore, the assumptions made on site type and density ratios have been accepted through an examination process (in relation to the Core Strategy and Urban Core Plan, as well as the introduction of CIL), without significant concern raised by stakeholders. For these reasons, the assumptions made are considered to be reasonable for the Newcastle / Gateshead market, which is a different proposition to the markets of the other regional local authorities.

6.7.11. Given the nature of the Newcastle / Gateshead market, the acceptance of the approach through examination and having considered the above evidence we conclude that the approach previously adopted is reasonable for the viability testing. However, for both Councils there are emerging policies related to open space standards, which could potentially impact on gross to net ratios.

6.8. Scheme typologies – dwelling size / mix and density

6.8.1. In previous studies the Councils have adopted the following average dwelling sizes, used in the viability modelling:

1b flat	45 sq m
2b flat	60 sq m
3b flat	75 sq m

2b house 70 sq m
3b house 84 sq m
4b house 121 sq m
Assisted Living 1b flat 55 sq m
Assisted Living 2b flat 75 sq m

6.8.2. We have sense checked this against the other local authority studies:

Durham County Council (Mar 2018 Draft) – a single average equivalent to 95 sq m was adopted.

Sunderland City Council (Aug 2017) – 68 sq m to 130 sq m

Northumberland County Council (Jun 2016 – currently being reviewed and updated)
– 43 sq m to 125 sq m.

North Tyneside Council (Jun 2016) – 65 sq m to 130 sq m

Stockton Borough Council (Oct 2016) – 70 sq m to 120 sq m

6.8.3. The allowances are broadly in line with other local authority studies, having been previously accepted through an examination process. The average sizes are also in keeping with sales data analysed from the area. On this basis the allowances are considered to be reasonable.

6.8.4. With regard to the appropriate mix of dwellings, the approach previously adopted recognises that this fluctuates dependent on the target market. For example, in some high value urban area (locations such as Jesmond and Gosforth for example) purchasers may be more attracted to higher density town-house 2.5 / 3 storey style accommodation. This may not be appropriate in other locations where purchasers favour more traditional 2 storey properties. For this reason, an allowance has been made to recognise fluctuations in dwelling mix. It is stressed that not all variations

can be captured in an area-wide viability study and instead the guidance indicates that a reasonable average should be derived at.

6.8.5. The adopted mix is summarised as follows:

Table 6.2 – Dwelling mix

ZONE	SCHEME TYPE		1 BF	2 BF	3 BF	2 BH	3 BH	4 BH
			OVERALL UNIT NUMBERS					
HIGH	A	1 UNIT						1
HIGH MID		1						1
MID		1						1
LOW MID		1					1	
LOW		1					1	
HIGH	B	15 UNITS					6	9
HIGH MID		15					9	6
MID		15				4	7	4
LOW MID		15				6	9	
LOW		15				6	9	
HIGH	C	50 UNITS				10	15	25
HIGH MID		50				10	20	20
MID		50				14	24	12
LOW MID		50				20	24	6
LOW		50				20	27	3
HIGH - FLATS (CC)	D	100 UNITS	30	60	10			
HIGH - HOUSES		100				20	40	40
HIGH - HOUSES (CC)		100				20	40	40
HIGH MID		100				20	40	40
MID		100				25	45	30
LOW MID		100				30	55	15
LOW		100				30	55	15

6.8.6. As shown above in Table 6.2, the dwelling mix assumptions vary dependent on whether the site is located in a high, high mid, mid, low mid or low value location (these value bandings are discussed in more detail below). This reflects the reality of the market, which will adjust the product offering to suit anticipated purchaser demand. As indicated above, for the purposes of an area wide study it is impossible

to test all likely variations in dwelling mix, however the approach above reflects likely changes in dwelling mix in different value locations and for different scheme sizes.

6.8.7. Furthermore, the approach outlined above has been adopted through various viability studies without significant concern from stakeholders and has also been accepted through an examination process.

6.8.8. Having considered all of the above, and to ensure consistency in the testing, we consider the average dwelling sizes and the proposed dwelling mix scenarios to be reasonable for the purposes of the viability testing.

6.9. Average Sales Values – Market Value Dwellings

6.9.1. As indicated above, the Council has consistently adopted 5 average value bandings, considered to be reflective of average prices paid across the local market. Clearly values fluctuate across a market sector, therefore it is important that viability testing makes suitable allowances for likely variations.

6.9.2. During previous studies the figures applied have been adjusted to reflect prevalent market conditions. The allowances put forward in Q2/Q3 2017 are as follows:

High	-	£2,948 per sq m
High mid	-	£2,457 per sq m
Mid	-	£2,047 per sq m
Low mid	-	£1,801 per sq m
Low	-	£1,583 per sq m

6.9.3. In order to test the value assumptions we have researched Land Registry data across the Newcastle / Gateshead market over recent years, restricting our search to new-build sales only. We have then cross referenced this with dwelling size information on the EPC register. This allows a more focused analysis as it enables us to identify values on a “per sq m basis”.

- 6.9.4. Previous queries have been raised by stakeholders with regard to whether the use of the EPC register data accurately reflects the sizes of new build dwellings. In particular queries were raised as to whether the EPC Register data under-estimates dwelling sizes, which has the knock-on effect of over emphasising sales rates on a per sq m basis.
- 6.9.5. For clarity, we consider the use of the EPC register to be appropriate for the purposes of this study when analysing sales values, for the following reasons:
- (i) This approach was adopted in previous plan wide viability testing undertaken by the Councils (going back to 2014), therefore ensures consistency in the methodology with previous studies undertaken.
 - (ii) Furthermore, the approach adopted by the Council was accepted through the Examination process both for the Core Strategy viability testing and CIL testing.
 - (iii) In our experience, it is an approach used on a wide-spread basis in preparation of viability assessments for individual planning applications and area wide studies. The method is used by Local Authorities, surveyors, landowners and house-builders (albeit it is accepted that not all parties consistently use the approach).
 - (iv) For the purposes of an area-wide study the assessor is looking to establish appropriate average sales values. It is accepted that the sales data collected through the Land Registry will reflect a variety of different dwelling types, some of which will comprise garages and some of which will not. The rates per sq m data will therefore show a range of figures to reflect these variations. However, we have not looked to adopt values at the top end of the range, but instead looked to arrive at average values, which mitigates these variations in the data.

6.9.6. Please note, we would also stress that there is a lag of around 3 – 6 months in the Land Registry data, due to the time it takes for new transactions to be submitted to the Land Registry following a sale and to be uploaded onto the database. As such, any house price inflation that has taken place in recent months (over a 1 to 2 quarter period) is not reflected in the evidence. Allowances therefore need to be made in the analysis for this inflation.

6.9.7. The values ranges identified for each postcode area are summarised below. It is stressed that whilst the data is presented based on postcode location, it is recognised that values can and do fluctuate within postcode areas, therefore the multiple value bandings can apply to each postcode area:

NE2 & NE3	-	£2,710 to £4,221 per sq m
NE4	-	£1,734 to £2,133 per sq m
NE5	-	£1,682 to £2,314 per sq m
NE6	-	£1,602 to £2,938 per sq m
NE8	-	£1,529 to £2,494 per sq m
NE9	-	£1,953 to £2,716 per sq m
NE10	-	£2,486 to £2,716 per sq m
NE13	-	£1,961 to £2,857 per sq m
NE15	-	£1,523 to £2,250per sq m
NE21	-	£1,552 to £2,130 per sq m
DH3	-	£1,588 to £2,355 per sq m

6.9.8. The data shown above dates from 2016. Again, house price inflation since this time therefore needs to be factored into the analysis.

6.9.9. In terms of the Councils low average value assumption (£1,583 per sq m), there are a handful of recent sales which range from circa £1,550 to £1,600 per sq m, which appear to justify this figure. However, these sales tend to be for larger than average terrace and semi-detached dwellings, most likely providing 2.5 and 3 storey

dwellings. For average, 2 storey dwellings the low end of the values identified are closer to £1,750 - £1,800 per sq m (allowing for inflation). On this basis, it could be argued that the Councils average allowance of £1,583 per sq m is too low for the purposes of the viability assessment, as it assumes all dwellings in the low value locations would be equivalent to 2.5 and 3 storey products, which is unlikely to be the case. Having considered this, we would recommend **the average allowance in for the low value location is increased to say £1,700 per sq m**. This is considered to be a more appropriate average allowance to reflect the inclusion of 2 storey products.

- 6.9.10. For the low mid, mid and high mid value areas the Council has allowed £1,801 to £2,457 per sq m. The evidence broadly supports this value tone. However, it is again stressed that a large proportion of the data is from 2016 and early 2017 and therefore an additional allowance needs to be factored in to reflect house price inflation since this time.
- 6.9.11. For the high value area the average allowance has been increased to £2,948 per sq m. As shown from the above data there are examples where significantly higher values can be achieved within this market. On this basis, if anything, the allowance could be argued to be cautious.
- 6.9.12. As a further comment, and as discussed below in 6.11, there has been significant inflationary pressure on build costs during 2017, which has caused costs to 'spike'. It is reasonable to assume that some of these increases will be passed onto purchasers by housebuilders, which will help drive house price inflation. It is accepted that 'cost does not equal value' and therefore it is not realistic to assume that all of the build cost rises will simply be passed onto purchasers. This is because the factors which impact on house prices are numerous (e.g. interest rates, wages, supply, availability of mortgages etc), therefore market price is not simply dictated by build cost. That said, build cost inflation is undoubtedly one of the factors that drives house prices, and as such it is reasonable to assume that some adjustment in the sales values needs to account for build cost inflation.

6.9.13. This is particularly relevant when looking at the BCIS data for build costs (see below 6.11) and the Land Registry for sales values. This is because the BCIS is calculated as at today, therefore the data incorporates all of the recent build cost inflation. However, as indicated above, the Land Registry is lagged by between 3 – 6 months, therefore the sales prices achieved do not reflect the inflationary pressure caused by build cost rises. This therefore needs to be recognised in the analysis undertaken.

6.9.14. By way of summary we would therefore suggest the following average value allowances, which takes into account the evidence identified and also allows for some further house price inflation since the data was collected:

High	-	£3,050 per sq m
High mid	-	£2,550 per sq m
Mid	-	£2,150 per sq m
Low mid	-	£1,875 per sq m
Low	-	£1,700 per sq m

6.9.15. For assisted living apartments, the previous assumption has been based on a 25% increase over the general average allowances. There is limited evidence for new build assisted living apartments, however we note the McCarthy and Stone Kenton Lodge scheme in NE3 (considered to be a high value location), where a number of sales were achieved in 2016. The average price achieved across 22 sales equated to £4,283 per sq m. Even before sales price inflation is factored in, this reflects a circa 30% price increase above the high value area general average of £3,050 per sq m. On this basis, we consider the 25% uplift to be reasonable.

6.10. Average Sales Values – Affordable Housing

6.10.1. In previous testing the Council has allowed transfer values for affordable rent units equivalent to 55% of the market value. For intermediate / shared ownership units the allowance has been increased to 70% of market value.

6.10.2. The local authority regional studies show the following allowances:

Durham County Council (Mar 2018 Draft) – affordable rent equivalent to 50% of market value, for intermediate / shared ownership 67.50% of market value.

Sunderland City Council (Aug 2017) – for the affordable rent units a ‘rent and yield’ approach has been adopted, whereby the net rental has been arrived at (by deducting management, voids, repairs) before capitalising using an appropriate yield. For the intermediate / shared ownership 65% of market value has been assumed.

Northumberland County Council (Jun 2016 – currently being reviewed and updated) – affordable rent equivalent to 45% of market value, for intermediate / shared ownership 67.50% of market value.

North Tyneside Council (Jun 2016) – have adopted fixed transfer values, ranging from £65,000 to £92,000 for affordable rented units and £70,000 to £80,000 for intermediate / shared ownership.

Stockton Borough Council (Oct 2016) – approach unclear.

6.10.3. There are therefore a number of approaches to identifying transfer values, albeit the most favoured tends to be in line with the Councils existing approach whereby a percentage of the equivalent market value is allowed.

6.10.4. Having considered the above and based on our experience of undertaking individual viability assessments, the allowances made are considered to be appropriate.

6.10.5. In addition, ‘Starter Homes’ is being introduced as an additional potential product for consideration. Whilst the dwellings would be sold in the open market and therefore are different to affordable rent and intermediate / shared ownership dwellings (which are transferred to a Registered Provider), this would nonetheless reflect a

product which is made more affordable to the end occupier. There are various conditions relating to Starter Homes, including age restrictions on who can acquire them and also a price cap equating a maximum of 80% of the equivalent market value. However, the Councils have indicated that they have a preference for discounted market value. This is because it ensures the units remain affordable dwellings in perpetuity (whereas a Starter Home would only be affordable at the point of the first sale) and it is not limited to first time buyers. For discounted market value, the NPPF wording also refers to these units being offered as a maximum up to 80% of the market value (which should therefore be reflected in the viability testing).

6.11. Plot construction costs

6.11.1. For the purposes of this review, plot construction costs mean the cost of building each dwelling, including preliminaries and contractor's margin, but excluding externals, abnormals and a contingency allowance.

6.11.2. During 2017 build cost inflation rose sharply, with some commentators seeing this as a consequence of Brexit (due to a reduction in the skilled labour market). This rise has increased pressure on viability in some areas. However, it remains to be seen whether this is a short-term adjustment in the market or a longer term trend. The BCIS published an article in January 2018 which predicted tender prices would fall in the year to Q3 2018 (see Appendix 10). The BCIS All-in Tender Price Index (see Appendix 11) shows the following:

1Q 2017	-	298
2Q 2017	-	320
3Q 2017	-	312
4Q 2017	-	321
1Q 2018	-	317
2Q 2018	-	315
3Q 2018	-	314

- 6.11.3. This shows there was a sharp ‘jump’ in build costs between Q1 and Q2 in 2017, however since this time there has been some consolidation in the market, which is expected to continue. This suggests that the sharp increase in build cost inflation is a short-term adjustment.
- 6.11.4. In terms of rates adopted, the Council has previously applied plot construction costs in line with the Build Cost Information Service (“BCIS”) the RICS. For low value areas the lower quartile BCIS rate has been applied, increased to the median rate for the high value areas. For the low mid, mid and high mid areas figures in between the lower quartile and median BCIS rates have been applied.
- 6.11.5. The BCIS is a favoured tool in the industry, particularly for the purposes of an area wide study. This is because the data, which is based on voluntary tender information submitted to the RICS, gives a rate per sq m to apply to an assessment. Furthermore, it also can be rebased to particular locations, and can also be adjusted dependent on the size of your dwellings (for example a rate is given for 2 storey housing and a separate rate for single storey dwellings), therefore giving greater accuracy.
- 6.11.6. However, we would stress that, like any data source, it does have weaknesses which can often be overlooked. Firstly, the ‘rate per sq m’ shown in the BCIS includes the plot construction cost, site preliminary costs and the contractor’s overhead allowance. However, it excludes external costs, contingency allowance and all abnormal works. If the BCIS is adopted the items excluded therefore need to be added back in. Likewise, it is important that items such as preliminaries are not ‘double counted’.
- 6.11.7. Secondly, it is important to understand the context of the data. From our analysis, between January 2012 and March 2017 there were 137 separate housing schemes across the UK which were used for ‘elemental’ analysis in determining the various BCIS rates. Of this sample, the size of schemes ranged from 1 house to 68 houses, with an average of 12.52 houses per scheme submitted into the data. 85% of the sample comprised schemes consisting of 20 houses or less and only 1.46% of the

sample (2 schemes) comprised 50 or more dwellings. In other words, the vast majority of the data used for analysis when determining the various BCIS rates was derived from small schemes implemented by either local or relatively small contractors. We note that no volume house builder contributed to the aforementioned sample.

- 6.11.8. It is generally accepted that volume house-builders are able to construct houses at a cheaper rate than smaller building firms (owing to their ability to bulk-buy materials and their ability to offer more regular work, therefore negotiate cheaper contracts with sub-contractors etc). The BCIS acknowledges this through a note on “Economies of Scale” it published on 25th Oct 2016 (see attached Appendix 12), which states the following:

Pricing levels on building contracts tend to fall as the size of the project increases.

The latest BCIS Tender Price Study, based on project tender price indices analysed by contract sum, shows that pricing levels fall by as much as 20% between small contracts and multimillion pound schemes.

Compared to the mean value of projects in the study of £1.7million projects, pricing on small projects is 10% higher, while pricing on projects over £40million can be 10% lower.

- 6.11.9. As indicated above, the sample used in the elemental analysis does not include data from larger scale projects, it is mostly derived from schemes comprising 20 or less houses. As the cheaper volume house-builder costs are not reflected within this sample, the data can be regarded as being inherently high, at least when trying to determine the construction costs for a large scheme (in excess of say 50 units). For this reason, the BCIS is considered to be less reliable for larger developments (particularly those which would require implementation by a large volume house

builder). To account for this, the BCIS lower quartile figure is often deemed a more appropriate benchmark for larger scale projects, however even the lower quartile can be regarded as being above the build costs typically incurred by volume housebuilders.

6.11.10. Thirdly, the data is partly estimated and is vulnerable to short-term 'spikes' in the wider construction market (regardless of whether this has in fact filtered through to specific tender prices for specific products e.g. housing). This can cause sharp short-term 'jumps' in the BCIS rates shown, which then typically level off in the future. For undertaking a study at a particular point in time, this can provide an unbalanced view of the market. As indicated above, at the current time the BCIS rates reflect recent sharp inflationary pressure, but as shown it is expected that the impact of this will level off in the coming months. From a viability testing perspective, applying the current BCIS rates, which incorporate the recent spikes in the market place, can provide an unbalanced view of scheme viability.

6.11.11. In summary, the BCIS is a useful tool and is routinely used when undertaking area wide assessments. However, there are weaknesses in the data sampling, particularly when assessing larger scale projects. As such, the context of the data needs to be understood and adjustments are needed to ensure appropriate build costs are applied.

6.11.12. Furthermore (and referenced above), the following appeal decisions are relevant here:

Poplar Close, Ruskington (PINS ref 3150756)

- Greenfield site, 67 dwellings.
- Medium to high value location.
- Use of lower quartile BCIS agreed and accepted by the Inspector.

Flaxley Rd, Selby (PINS ref 3149425)

- Greenfield site, 202 dwellings.
- Medium value location.
- Inspector ruled that the lower quartile BCIS was not appropriate for determining build costs when a scheme was (i) likely to be delivered by a volume house builder and (ii) other information / data was available.
- A figure below the lower quartile of the BCIS was accepted by the Inspector.

Lowfield Road, Bolton upon Dearne, Barnsley (PINS ref 3170851)

- Greenfield site, Phase3 97 dwellings.
- Low value location.
- Inspector accepted build costs significantly lower than the BCIS lower quartile, on the basis of the scheme was likely to be delivered by a 'low cost' developer.

6.11.13. Two of the three appeal decisions therefore advocate the use of a build cost below the BCIS lower quartile. In the case of a low value location scheme (implemented by a 'low cost' developer), the build costs are someway below the BCIS lower quartile rate. This is also reflected in our own experience of undertaking individual viability assessments in low value locations, where we typically see build costs below the BCIS lower quartile rate. It also matches evidence held by the Councils from their own records of individual viability schemes being delivered in lower value locations, which support figures below the BCIS lower quartile rate.

6.11.14. The local authority regional studies show the following allowances:

Durham County Council (Mar 2018 Draft) – for schemes of 20 units or less the BCIS median is applied, for schemes of 50 dwellings or more the lower quartile is applied.

Sunderland City Council (Aug 2017) – adopt the mid-point between the median and lower quartile.

Northumberland County Council (Jun 2016 – currently being reviewed and updated) – consider the lower quartile and median figures of the BCIS. Low cost developer model run as a sensitivity test.

North Tyneside Council (Jun 2016) – consider the BCIS and then adopt a lower rate (equivalent to £830 per sq m).

Stockton Borough Council (Oct 2016) – adopt the BCIS median, although they comment that they consider this to be a conservative approach.

6.11.15. The identified evidence broadly supports the use of the BCIS, however it also highlights the limitations of the data and indicates that adjustments are appropriate (dependent on the nature of the site in question) for the purposes of plan viability testing.

6.11.16. In this respect, the Councils approach of adopting the lower quartile for the lower value locations and the median rate for the higher value locations appears in keeping with other studies. However, for the reasons discussed above this can be argued as being overly cautious.

6.11.17. Notwithstanding this, we would comment that the median rate should only typically apply when there is a change of materials, i.e. stone construction, tiled roofs, sash windows, enhanced bathroom / kitchen specifications etc. This is likely to apply to the high and high mid value locations (albeit there still should be some differential between the two locations to reflect likely variations in specification). A range between the lower quartile and median is considered to be reasonable (similar to the approach previously adopted by the Councils).

6.11.18. For the low, low mid and mid value locations our base appraisals adopt the BCIS lower quartile rate. However, as discussed above, this is considered to be a cautious approach and in reality schemes brought forward by low cost developers would carry significantly reduced build costs when compared to the BCIS lower quartile rate. For this reason, we have adopted a sensitivity test which appraises a low cost developer model (with the most significant adjustment being in relation to build costs below the BCIS lower quartile).

6.11.19. Please note, for single dwelling schemes, flatted schemes and assisted living we would support the use of the BCIS median. This is because the data supplied to the BCIS is provided by specialists who deliver these types of schemes and therefore the data for these categories is considered to be more reliable.

6.12. Externals, contingency and professional fees

6.12.1. The Councils have previously used the following allowances for these costings:

- Externals 10% of build costs
- Contingency 5% of build costs
- Professional fees 10% of build costs
- **Total 25% of build costs**

6.12.2. An additional allowance is then made for NHBC building warranties and EPC Registers.

6.12.3. To consider these allowances we have reviewed the 100 plus viability appraisals submitted to CP Viability from the wider Northern and East Midlands region (as discussed previously). The results of our analysis are summarised below:

Externals

- Sub 10 dwellings average 9.88%

- 10 to 50 dwellings average 13.40%
- Over 50 dwellings average 18.32%

Contingency

- Sub 10 dwellings average 3.02%
- 10 to 50 dwellings average 3.29%
- Over 50 dwellings average 2.90%

Professional fees

- Sub 10 dwellings average 8.31%
- 10 to 50 dwellings average 6.69%
- Over 50 dwellings average 5.78%

6.12.4. The above evidence suggests external costs in the region of 15%, contingency at 3% and professional fees of circa 6.5%. This gives an overall total of 24.50%. Whilst the individual elements are different the overall allowances is therefore in line with the figures adopted by the Councils.

6.12.5. As further evidence, we have reviewed the local authority regional studies which show the following allowances:

Durham County Council (Mar 2018 Draft) – externals 15%, contingency 3% to 5% and professional fees 5% to 10%. Total ranges from 23% to 30%.

Sunderland City Council (Aug 2017) – externals 5% to 20%, contingency 2.5% to 5%, professional fees 10%. Total ranges from 17.5% to 35%.

Northumberland County Council (Jun 2016 – currently being reviewed and updated) – externals 10% to 15%, contingency 3.75%, professional fees 10%. Total ranges from 23.75% to 28.75%.

North Tyneside Council (Jun 2016) – externals 20%, contingency 0% to 5%, professional fees 10%. Total ranges from 30% to 35%.

Stockton Borough Council (Oct 2016) – externals 15%, contingency 0%, professional fees 8% to 12%. Total ranges from 23% to 27%.

- 6.12.6. Please note, the above evidence (both the viability appraisals data and local authority studies) implicitly include the NHBC warranty and EPC register costs.
- 6.12.7. The Councils total allowance for externals, contingency and professional fees at 25% therefore is in line with the viability appraisal data and the majority of the other local authority studies. We therefore support the allowances made. However, we do not consider it necessary to make an additional allowance for the NHBC warranty or the EPC Register as these are already allowed for in the costs (and to include them separately would represent double counting).

6.13. Abnormals

- 6.13.1. These can be defined as construction costs which are over and above the standard requirements of a scheme. This can include a variety of costs, such as remediation works, decontamination, demolition, enhanced foundation solutions, flood mitigation works, 'opening' infrastructure works etc.
- 6.13.2. There is a relationship between land value and abnormal costs, the general principle being that if 2 identical sites are next to one another, the site with higher abnormal costs will have a lower site value and vice versa. This follows the way the market works, as a housebuilder / developer would look to negotiate a reduced price if abnormal costs were identified. Likewise, it is reasonable to assume that, if abnormal costs are found, and these abnormal costs will always need to be incurred to bring

that site forward (for example identified land contamination), a landowner would need to readjust their expectations and lower their requirements regarding the site value.

- 6.13.3. In theory, it could be argued that there should be a direct corresponding relationship between the level of abnormal costs and site value. However, there remains a minimum requirement below which landowners may not be incentivised to release the land for development, even if there appears to be a justification to the reduction based on the level of abnormal costs. The market is imperfect in this respect and therefore landowners may look to negotiate a compromise, rather than simply accepting that all the abnormal costs should be deducted from the land price.
- 6.13.4. Typically, most sites will attract some level of abnormal costs, although this will vary significantly from site to site. This may not necessarily follow preconceptions of where abnormal costs are likely to be incurred. For example, an undeveloped greenfield site may appear to be a straight forward development opportunity, however following investigation enhanced foundations could be found due to adverse ground conditions, flood mitigation works may be required, access issues could be identified etc. Abnormal costs will always need to be determined on a site by site basis.
- 6.13.5. However, for the purposes of Local Plan viability study, it is considered appropriate to make some allowance within the modelling for abnormal costs, even though in reality it is impossible to accurately gauge an 'average' (therefore any allowance made will be arbitrary). What is important is that whatever the level adopted this should be considered alongside the site value.
- 6.13.6. The Councils have previously applied abnormal costs equivalent to 5% of the build costs.

6.13.7. There is no consensus as how best to gauge the abnormal costs, with some adopting a percentage of build costs, others applying a rate per Ha. This is shown within the local authority regional studies:

Durham County Council (Mar 2018 Draft) – £75,000 per net Ha for greenfield and £150,000 per net Ha for brownfield.

Sunderland City Council (Aug 2017) – 10% of build costs for brownfield sites and zero for greenfield sites.

Northumberland County Council (Jun 2016 – currently being reviewed and updated) – as most sites coming forward were identified as greenfield a zero allowance was adopted.

North Tyneside Council (Jun 2016) – £100,000 per Ha for brownfield, zero for greenfield.

Stockton Borough Council (Oct 2016) – for schemes over 50 dwellings a range of £50,000 to £200,000 per net Ha.

6.13.8. As a comparison, we have analysed what 5% of build costs translates as a rate per net Ha. We have applied the BCIS rates suggested above and factored in 10% external costs and 5% contingency fee. This shows a range from £161,443 to £342,340 per net Ha. Compared with the other local authority allowances the fixed 5% rate is therefore generally higher (particularly as some local authorities have adopted zero for greenfield sites).

6.13.9. We also note that applying a percentage against build costs results in the level of abnormal costs increasing arbitrarily between sites (with the highest rates recorded in the high and high mid value areas). There is no reason why a site in a higher value

area would carry increased abnormal costs, therefore the percentage approach unduly penalises sites in higher value areas.

6.13.10. Furthermore, a number of the other authorities apply different rates between brownfield and greenfield sites, on the basis that there is (arguably) a greater chance of incurring abnormal costs on previously developed land (as issues such as contamination are more likely to be a factor). However, if this approach is adopted then separate sites values must also be applied to greenfield and brownfield sites. There is no correct approach in this regard and a single abnormal costs allowance is just as reasonable as applying a split rate for greenfield and brownfield sites.

6.13.11. We conclude that it is appropriate to make some level of allowance for abnormal costs in the viability modelling but recognising that this should be balanced with the adopted site value. Furthermore, applying a rate per net Ha is a better approach than applying a percentage rate to build costs (as the latter unfairly penalises sites located within higher value areas). Adopting a single rate for all site types is a reasonable approach and based on the other local authorities' assessments we consider an allowance of £150,000 per net Ha to be appropriate for the modelling for the majority of the typologies. For city centre locations this is increased to £300,000 per net Ha, reflecting the challenges of accessing sites within built up areas.

6.14. Marketing and legal fees

6.14.1. The Councils allowance equates to 3.5% of revenue for the marketing and £600 per dwelling for the legal fees.

6.14.2. The averages for marketing as shown from our in-house viability database are:

- Sub 10 dwellings average 2.83%
- 10 to 50 dwellings average 2.90%
- Over 50 dwellings average 2.67%

6.14.3. The local authority regional studies show the following:

Durham County Council (Mar 2018 Draft) – marketing 2% to 3%

Sunderland City Council (Aug 2017) – marketing 3.5% (reduced for affordable)

Northumberland County Council (Jun 2016 – currently being reviewed and updated)
– marketing 4%

North Tyneside Council (Jun 2016) – marketing 3%

Stockton Borough Council (Oct 2016) – marketing 3%

6.14.4. Based on the above we consider the allowance of 3.5% to be overly cautious. For larger schemes there will be economies of scale which will reduce the overall marketing cost. Furthermore, for small projects the developer would likely use a local agent, rather than incurring the cost of a marketing suite etc (which would minimise the costs involved). **As an overall average, we consider 3% of revenue (applied to the market value dwellings) to be a reasonable allowance for schemes providing 15 or more dwellings. For a single dwelling we have reduced the rate to 1.5%.**

6.14.5. A £600 per unit legal fee is considered to be reasonable for the market value dwellings. For the affordable units, which are typically transferred in bulk to a single party, the costs will be reduced. We consider an allowance of £300 per affordable unit to be reasonable.

6.15. Finance

6.15.1. The Councils allowance includes a 6.5% debit interest charge, plus 1.5% credit.

6.15.2. The debit interest rates shown in our in-house viability database are as follows:

- Sub 10 dwellings average 6.33%
- 10 to 50 dwellings average 5.81%
- Over 50 dwellings average 5.71%

6.15.3. The above therefore shows debit interest charges falling as the size of the scheme increases. This reflects the fact that smaller schemes are likely to be implemented by local / small house builders, generally regarded as being a higher risk by lenders. For the largest schemes, it is normally the case that these are delivered by national volume house builder plcs, regarded as lower risk borrowers (which serves to reduce the interest rate charged).

6.15.4. As for the local authority regional studies these show the following debit interest rates:

Durham County Council (Mar 2018 Draft) – 5.5% to 6.5% debit

Sunderland City Council (Aug 2017) – 6% debit plus 1% arrangement

Northumberland County Council (Jun 2016 – currently being reviewed and updated)
– 6.5% debit

North Tyneside Council (Jun 2016) – 6.5% debit and 6.5% credit

Stockton Borough Council (Oct 2016) – 6% debit

6.15.5. Based on our viability database the 6.5% debit allowance appears cautious. However, this allowance is generally in line with the approach adopted by other local authorities in their own viability studies. For this reason, and assuming the rate would also cover arrangement fees / exit fees etc, we consider an average 6.5% debit charge to be appropriate for the purposes of the testing.

6.15.6. In addition, we consider it appropriate to factor in some level of credit rate. For larger schemes, there is likely to come a point in time when the level of revenue is greater than the level of outgoing costs. When this occurs it is reasonable to assume that the developer would invest the surplus into 'something', rather than leaving the money to be eroded by inflation. It may be that this is regarded as an opportunity cost and therefore inputted into another scheme the developer is involved with. Alternatively, there may be an opportunity to invest the money into a yield generating investment, such as bonds, shares, property etc.

6.15.7. We note in the past the Councils have allowed a credit of 1.5%. However, for the purposes of the viability testing we consider a higher average credit rate of 3% to be appropriate (reflecting the fact that developers are typically sophisticated businesses and would not simply input the money into a savings account but would look to maximise the return from this surplus, such as using it to reduce the borrowing on a future scheme). It is stressed, however, that in reality this is only likely to impact on the larger projects (likely to be 100 dwellings or more).

6.16. Build / sales rates

6.16.1. The Councils put forward the following average assumptions:

Build period

1 unit – 9 months

15 units – 12 months

50 units – 24 months

100 units – 36 months

First sale

1 unit – 9 months

15 units – 9 months

50 units – 12 months

100 units – 12 months

Sales per annum

1 unit – 1 p.a.

15 units – 15 p.a.

50 units – 25 p.a.

100 units – 33 p.a.

- 6.16.2. Construction rates should broadly reflect likely sales rates. This follows the principle that there is little benefit to constructing dwellings at a significantly faster rate than they can be sold at, as it creates the risk that homes will be left empty for extended periods (and could be targeted for vandalism, naturally deteriorate etc). In this respect, we consider it appropriate to first consider the sales rates and from this an appropriate construction rate can then be applied.
- 6.16.3. We have analysed sales rates achieved at new build schemes across the Newcastle / Gateshead market and have noted some examples where the sales rates have been greater than that allowed above. This is particularly the case for large strategic sites where there are 2 or 3 outlets. This suggests that a higher sales rate can be delivered in certain locations and for certain scheme types.
- 6.16.4. Furthermore, we would also comment that across the wider north east region there is evidence of sales rates in excess of 40 dwellings per annum. This tends to be from schemes where there is a high demand from buyers looking to take advantage of the government's Help to Buy: Equity Loan scheme. Again, this points to the above allowances as being overly cautious.

6.16.5. However, there are also examples of schemes across the Newcastle / Gateshead market where sales rates are in line with the Councils above allowances. Regarding the Help to Buy: Equity Loan scheme the intention is currently for this to end in 2020. Whilst there may be some short-term impact on sales rates, longer term rates are likely to level off.

6.16.6. Having considered the above, we consider the Councils' allowances for sales rates and construction costs to be reasonable for schemes up to 100 dwellings. However, for strategic sites where multiple outlets are likely to be in situ (increasing the scheme disposal rate) we consider a higher rate equivalent to 60 sales per annum to be appropriate.

6.17. Developer Profit

6.17.1. The Councils assumption is based on the following:

- 20% on revenue applied to the market value dwelling sales
- 6% on revenue applied to the affordable housing transfer values

6.17.2. The averages for developer profit as shown from our in-house viability database are as follows:

- Sub 10 dwellings average for market value dwellings 16.17%
- 10 to 50 dwellings average for market value dwellings 17.68%
- Over 50 dwellings average for market value dwellings 18.81%

6.17.3. This suggests that profit requirements tend to reduce for smaller schemes and increase for larger projects. It also suggests that profit margins are not fixed and can fluctuate from scheme to scheme.

6.17.4. Furthermore, there are examples from appeal decisions where a variety of profit margins have been accepted. For example, at the *Poplar Close, Ruskington (ref 3150756)* appeal decision a 17.5% profit margin was deemed acceptable by the Inspector. In contrast, at the *Flaxley Rd, Selby (ref 3149425)* appeal the Inspector agreed to a 20% rate. This therefore highlights the nature of development and the fact that risk will differ from site to site. For example, it is reasonable to assume that a 50 dwelling scheme in a high value greenfield location would carry a lower risk than a 50 dwelling scheme in a low value brownfield location. The variation of risk and profit therefore reflects the workings of a free market.

6.17.5. As for the local authority regional studies, these assume the following:

Durham County Council (Mar 2018 Draft) – 15% to 20% on revenue for market value and 6% for affordable housing.

Sunderland City Council (Aug 2017) –20% on revenue

Northumberland County Council (Jun 2016 – currently being reviewed and updated)
– 17% to 20% on revenue for market value and 6% for affordable housing.

North Tyneside Council (Jun 2016) –20% on revenue for market value and 6% for affordable housing.

Stockton Borough Council (Oct 2016) –20% on revenue for market value and 6% for affordable housing.

6.17.6. The majority of the above studies therefore advocate a ‘split’ profit approach, applying a higher rate to the market value dwellings and a lower rate to the affordable units. This approach is considered to be logical as there is a different risk profile attached to market value dwellings, which are sold speculatively in the open market, compared with affordable units which are often ‘pre-sold’ before construction and transferred in bulk to a single party (therefore a much lower risk).

- 6.17.7. We also note that in the PPG viability section (discussed above in Chapter 3) that reference is made to a profit range of 15% to 20%. It also states that, “A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk”. This is considered to support the ‘split’ approach to profit outlined above.
- 6.17.8. However, we would stress that the above profit split is not appropriate when considering Build to Rent (“BTR”), otherwise known as Private Rented Sector (“PRS”) development. This is where a multi-storey apartment block is sold, as a single entity, to an institutional investor (such as a pension fund). There are different ways of delivering / funding this type of project, which can impact on the viability assessment. There are a number of options that have emerged for developers, however we consider the most typically used to be (i) Debt – to include options such as junior debt, senior debt, mezzanine debt, bridging finance etc, but ultimately it is a lender providing funds in exchange for a charge against the property and then the project is sold in the open market once completed (ii) Forward funding – this will involve a institutional investor (such as a pension fund) agreeing to buy a development that hasn’t commenced, therefore there is greater certainty for the developer. There are pros and cons to each approach, with the differences impacting on the viability appraisal. For example, for a forward funded deal the developer may be able to claim certain reliefs on Stamp Duty Land Tax, which would need to be reflected in the assessment. Furthermore, as the dwellings are sold in bulk, to a single party (with a deal agreed prior to construction) the risk profile is different to having to sell speculatively in the open market. From our experience and also from schemes appraised by the Council, a profit margin of circa 10% on revenue is considered to be more appropriate for this type of scheme.
- 6.17.9. Having considered all of the above, there is a legitimate argument to support a range of developer profit rates, at least for the market value dwellings. However, on balance and for the purposes of a plan-making study in this case we consider the spit

allowance of 20% / 6% to be reasonable (albeit if anything on the cautious side) for schemes being sold speculatively to individual purchasers. For the BTR financial model, we have adopted a forward funding approach where an apartment block is sold as a single entity to a single investor prior to commencement of the construction. For this model we have adopted a reduced profit of 10% on revenue. Furthermore, for single dwelling schemes we have assumed an owner occupier developer, therefore a profit allowance is not appropriate.

6.18. Residential Benchmark Land Value (“BLV”)

6.18.1. In short, the BLV represents the minimum land value that a hypothetical landowner would accept to release their land for development, in the context of the prevalent planning policies. A BLV does not therefore attempt to identify the market value, it is a distinct concept.

6.18.2. To identify the BLV, the Harman Review and the PPG recommends using a premium over existing use value (“EUUV”) and credible alternative values as a means of determining the BLV.

6.18.3. The PPG goes on to say that the BLV should:

- Fully reflect the total cost of all relevant policy requirements including planning obligations and, where applicable, any Community Infrastructure Levy charge;
- Fully reflect the total cost of abnormal costs; site-specific infrastructure costs; and professional site fees;
- Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types.

- 6.18.4. This follows the principle that if two identical sites are next to one another, and one has significant abnormal costs and the other does not, the site with abnormal costs will naturally have a lower site value than the land unconstrained by abnormals. In other words, as abnormal costs increase, site value decreases and vice versa (although it is not necessarily the case that cost equals value). This is because a landowner would be forced to reduce their expectations of value as a developer would have to factor in the cost of the undertaking the abnormal costs, resulting in a lower offer. As long as the landowner still secured a reasonable uplift over the EUV this would represent an acceptable deal and therefore the scheme would be viable. It would become unviable if the offer became too close to the EUV leaving no incentive for the landowner to release the land for development.
- 6.18.5. In terms of assessing the uplift above the EUV, a differential should be made between assessing previously developed land and agricultural (greenfield) land. This is because the underlying EUV of an agricultural field will typically be significantly lower when compared to previously developed land. This means that different premiums will need to be applied to encourage landowners to sell.
- 6.18.6. The Harman Review and PPG are each silent on the precise level of premium. However, based on our experience in the market place a premium in the region of 10% to 30% above the EUV is typically expected for previously developed land (dependent on the nature of the land). For agricultural land, where values will be relatively consistent regardless of locational factors, the level of premium will be significantly higher (and can fluctuate typically from 5 to 30 (or higher) times the EUV).
- 6.18.7. However, the PPG goes on to suggest that one approach to assessing the premium over the EUV is to identify recent, policy compliant, sales of land (to capture the latest market conditions) that have recently secured a planning permission (to capture the most up to date planning policies). This can then be compared to the EUV of that site. The difference between the two figures can be regarded as a guide to premium uplifts in that location. However, there are 2 key difficulties attached to this approach:

- There are a wide variety of factors which impact on land values, including overall site size, gross to net ratios, density, proposed dwelling types, location, planning policy contributions (which fluctuate from site to site), abnormal costs, infrastructure works, the financial circumstances of the vendor and purchaser, restrictive covenants on the title, easements, whether the sale took place prior to or post achieving planning consent etc. All the factors that impacted on value will not typically be known to an assessor nor available in the public domain. This means analysing land transactions is extremely difficult and not particularly reliable.

- The amount of data available is likely to be limited, reducing the reliability of the evidence.

6.18.8. In the context of the principles outlined above, the Councils are currently proposing the following average land values for the viability modelling:

Table 6.3 – Councils past BLV assumptions

Value area	Urban / sub urban (£ / Ha)	Non-urban (£ / Ha)
High	£2,100,000	£530,000
High mid	£1,600,000	£480,000
Mid	£1,000,000	£420,000
Low mid	£600,000	£380,000
Low	£200,000	£360,000

6.18.9. For greenfield land, an EUV of circa £20,000 per Ha is considered to be reasonable and reflective of the wider market. Using the Councils allowances, the premiums uplift over the EUV would subsequently equate to the following:

Table 6.4 – Greenfield uplift over EUV analysis

Value area	Urban / sub urban (£ / Ha)	Uplift over EUV £20,000 / Ha	Non-urban (£ / Ha)	Uplift over EUV £20,000 /Ha
High	£2,100,000	105	£530,000	26.5
High mid	£1,600,000	80	£480,000	24
Mid	£1,000,000	50	£420,000	21
Low mid	£600,000	30	£380,000	19
Low	£200,000	10	£360,000	18

6.18.10. For urban/sub urban sites the range of uplift is from 10 to 105 times the EUV. For the strategic sites the uplift range is reduced from 18 to 26.5. In all cases there is therefore a significant uplift over the EUV and to most landowners would represent a reasonable return. It is also stressed that a separate allowance of £150,000 per net Ha has also been recommended regarding abnormal costs and the above values should be considered within this context.

6.18.11. With regards to brownfield sites or land where there are existing buildings in situ, the EUV is likely to be significantly uplifted (and will vary more significantly from site to site dependent on the nature of the existing use). This is particularly the case for sites in an urban context, with close connections to Newcastle city centre, where alternative use values will be a factor. For example, an undeveloped parcel of land on the periphery of Newcastle city centre would have a relatively limited EUV. However, there may be a variety of alternative uses which would underpin the value of the land, including office development, hotels, retail etc (i.e. there would be 'Hope value' for an alternative use which would drive the value of the land). In this case, the value of the site would lie in the alternative uses not the EUV, therefore the BLV would need to be at least in line with the alternative use value to encourage a landowner to release the land for residential development (which is the approach advocated in the PPG July 2018 publication on viability). This highlights the different approach that is

adopted when determining the BLV of a brownfield site compared to a greenfield site.

6.18.12. By way of evidence we have assessed the local authority regional studies, which assume the following:

Durham County Council (Mar 2018 Draft) – range of £200,000 to £900,000 per Ha for greenfield sites, reduced to £175,000 to £800,000 per Ha for previously developed land.

Sunderland City Council (Aug 2017) – range of £370,000 to £900,000 per net Ha.

Northumberland County Council (Jun 2016 – currently being reviewed and updated) – for greenfield low to medium sites circa £250,000 to £370,000 per gross Ha. For high value sites in excess of £370,000 per gross Ha. For brownfield sites £185,000 to £310,000 per gross Ha.

North Tyneside Council (Jun 2016) –adopt an EUV plus incentive approach whereby for greenfield sites an EUV of £20,000 per Ha is applied and then 50% of the scheme revenue is added. For brownfield, an EUV of £350,000 per Ha is applied, plus 20% of scheme revenue.

Stockton Borough Council (Oct 2016) – range from £250,000 to £600,000 per net Ha.

6.18.13. As a general sense check of landowner expectations from the wider north of England and East Midlands regions, we have again reviewed our in-house viability database, albeit restricting the search from Jan 2016. It is acknowledged that this data is derived from a much broader area, often outside of the north east. Nonetheless, this is useful for gauging a general ‘tone’ of BLVs across a broad area. It is also stressed that, bar some inevitable outlying examples, BLVs for the majority of the cases remain within a relatively narrow spectrum across this wide region, as summarised below (please

note the figures are given on a per gross Ha basis, therefore net rates would be higher):

- 54 schemes within the sample ranging from 4 dwelling schemes 1,250.
- The average BLV is typically at its highest for schemes providing 40 units or less (an average across the sample of just under £1.1million per gross Ha).
- For schemes providing 40 to 100 units the average reduces significantly to circa £450,000 per gross Ha. For schemes providing in excess of 100 dwellings the average reduces further to circa £350,000 per gross Ha. This can be explained by quantum, as larger parcels are being purchased ‘in bulk’ the rate paid reduces.
- Across the whole sample, the range is wide from circa £100,000 to over £2million per gross Ha. However, the majority of the sample (around 75% of the date) falls within the relatively narrow band of £150,000 to £650,000 per gross Ha. It is noted that these sites tend to be in broadly low and mid value areas.

6.18.14. We have also considered land transactions in Newcastle and Gateshead, albeit recognising, as indicated above, the limitations to assessing land sales data:

Table 6.5 – Greenfield land sales Newcastle / Gateshead

Address	Pcode	Type	Gross Land area (Ha)	Sale Price	Sold (price per Ha)	Sale Date	
Gretna Rd / Benwell Lane	Benwell	NE15 6NW	Greenfield	0.14	£ 140,000	£ 1,017,471	01/06/2016
Axwell Park View	Newcastle	NE15 6DP	Greenfield	0.24	£ 30,000	£ 123,550	25/04/2017
Highfield Rd	Rowlands Gill	NE39 2LY	Greenfield	1.09	£ 250,000	£ 228,796	16/02/2017
Darrell St	Newcastle	NE13 7EN	Greenfield	0.07	£ 20,000	£ 290,706	01/11/2016
Green Lane	Pelaw	NE10 0QD	Greenfield	0.19	£ 130,000	£ 683,468	01/12/2016
Greenwell Terrace	Crawcrook	NE40 4PD	Greenfield	0.69	£ 319,911	£ 465,000	01/02/2017
Portobello Rd	Birtley	DH3 2NQ	Greenfield	1.75	£ 1,306,452	£ 746,544	01/05/2017

Table 6.6 – Brownfield land sales Newcastle / Gateshead

Address	Pcode	Type	Gross Land area		Sold (price per Ha)		Sale Date
			(Ha)	Sale Price	per Ha		
The Vigo, Hartside	Birtley	DH3 2EW	Brownfield	0.19	£ 290,000	£ 1,557,804	01/05/2015
City Quay, City Rd	Newcastle	NE1 2AN	Brownfield	0.23	£ 1,700,000	£ 7,369,649	16/08/2017
Clavering Place	Newcastle	NE1 3NG	Brownfield	0.21	£ 2,500,000	£ 11,655,660	31/01/2015
Falconar House, 87 Clayton St	Newcastle	NE1 5PY	Brownfield	0.09	£ 967,365	£ 10,392,865	01/08/2014
Felling Industrial Est	Felling	NE10 0EY	Brownfield	0.38	£ 95,000	£ 252,414	01/08/2015
Former Youth Club, Main Rd	Dinnington	NE13 7JW	Brownfield	0.17	£ 168,000	£ 1,002,967	26/01/2016
Former school club, Garth Farm Rd	Winlaton	NE21 6DF	Brownfield	0.26	£ 240,000	£ 926,625	01/06/2016
Former Bus Depot, Garth Farm Rd	Winlaton	NE21 6DF	Brownfield	0.63	£ 500,000	£ 791,987	01/03/2015
Crowther Indust Est	Washington	NE38 0AQ	Brownfield	0.34	£ 113,000	£ 336,413	15/06/2016
Former Car Park, Westmorland Rd	Newcastle	NE4 6QZ	Brownfield	0.08	£ 130,000	£ 1,690,684	29/09/2017
123 Scrogg Rd	Newcastle	NE6 2PR	Existing building	0.12	£ 47,750	£ 406,863	01/07/2014
Walker Rd	Newcastle	NE6 3JS	Brownfield	0.91	£ 231,000	£ 252,567	29/09/2015
Former Clinic, Carr Hill Rd	Gateshead	NE9 5LS	Existing building	0.06	£ 86,503	£ 1,335,931	23/10/2017
Springwell Rd	Gateshead	NE9 7SQ	Brownfield	0.72	£ 130,000	£ 180,466	17/04/2015

Table 6.7 – Land available for sale as at March 2018 Newcastle / Gateshead

Address	Pcode	Type	Gross Land area (Ha)		Ask (price per Ha)	
			area (Ha)	Asking	per Ha	
Former ATS Garage, Durham Rd	Birtley	DH3 1LS	Brownfield	0.08	£ 199,950	£ 2,600,402
Land adj Arndale Hse, Durham Rd	Birtley	DH3 2PG	Greenfield	0.05	£ 140,000	£ 2,661,077
St John St	Newcastle	NE1 5JG	Brownfield	0.06	£ 2,000,000	£ 32,946,667
Albion St	Felling	NE10 9SJ	Brownfield	0.34	£ 900,000	£ 2,647,500
Queensway South	Gateshead	NE11 0HW	Greenfield	0.08	£ 50,000	£ 617,750
Cross Lane	Gateshead	NE11 9HQ	Brownfield	2.95	£ 1,500,000	£ 507,740
North Mason Farm	Dinnington	NE13	Greenfield	59.93	£ 900,000	£ 15,018
Field Terrace	Throckley	NE15 9NP	Brownfield	0.05	£ 69,950	£ 1,440,387
Clavering Rd	Swalwell	NE16	Greenfield	0.10	£ 200,000	£ 1,976,800
St Cuthberts Rd, Marley Hill	Gateshead	NE16	Greenfield	0.42	£ 299,000	£ 710,413
Westgarth Ter	Washington	NE37 3AX	Brownfield	0.82	£ 127,605	£ 155,326
Alexandra Gardens	Ryton	NE40	Greenfield	0.13	£ 130,000	£ 973,424
Land at Greenside	Gateshead	NE40	Greenfield	10.19	£ 162,500	£ 15,947
Land at West Avenue	Westerhope	NE5 5JH	Brownfield	0.15	£ 250,000	£ 1,715,972
West Avenue	Westerhope	NE5 5JH	Mix	0.18	£ 400,000	£ 2,246,364
Former Gas Holder, St Anthony's	Newcastle	NE6 3TL	Brownfield	1.17	£ 400,000	£ 342,007

6.18.15. The above therefore shows a wide range of land values, highlighting the difficulty in undertaking a comparable approach (as land values vary dependent on location, use, future development potential, abnormals, Council planning policies etc).

6.18.16. Generally, the highest values are shown to be brownfield sites in an around Newcastle city centre where relatively small sites command high values (in excess of £10million per gross Ha in 2 cases), reflecting the ability to build multi storey buildings

in these locations. However, if these types of sites are removed from the sample the range reduces to circa £180,000 to £1.7million per gross Ha, with an average of just under £800,000 per gross Ha. This is more in keeping with the BLV allowances made by the Councils. That said, it is stressed that there are a number of examples where the land value paid is sub £500,000 per gross Ha, which (even allowing for the difference between gross and net figures) is lower than the Councils BLVs.

6.18.17. For the greenfield sites, the majority of the data is from what can be regarded as low mid, mid and high mid areas. We note that the highest price paid equated to just over £1million per gross Ha, albeit this was a small site. The average across the sample was circa £490,000 per gross Ha (or £415,000 per gross Ha if the Benwall site is removed from the analysis). Even allowing for a difference between gross and net values, the prices paid are somewhat lower than the BLV allowances suggested by the Councils. As an illustration, the mid value area allowance suggested by the Councils equates to £1million per Ha. In the sales identified the mid value areas typically show values sub £500,000 per Ha.

6.18.18. For asking prices, there are a number of small sites sub 0.5Ha, which tend to command higher rates (when assessed on a per Ha basis). However, for sites over 0.5Ha the value 'tone' is circa £150,000 to £500,000 per gross Ha, which follows a similar pattern to the brownfield and greenfield land sales identified above.

6.18.19. Finally, as suggested in PPG, we have looked to identify recent sales based on a recent planning permission (therefore capturing the most up to date planning policies). Once established this can be compared to the EUV to determine premium uplift when considering the BLV.

6.18.20. In practice, though, this has proven difficult with limited available evidence. The only site identified for analysis was a greenfield 1.75 Ha site at Portobello Rd, Birtley, which was purchased in May 2017 by a national volume house builder with planning permission for the construction of 60 dwellings. In accordance with the Gateshead residential value bands mapping, the site falls within a mid-value area. The price paid

equated to £746,544 per gross Ha. If an EUV of £20,000 per Ha is applied, the premium uplift once planning permission was secured equates to a multiple of 37. In comparison, the Councils BLV allowance equates to 45 when applied to the gross Ha (or 50 when applied to the net area). This suggests the Councils allowance is above the market.

6.18.21. Having considered all of the above, we consider the Council’s allowances for urban / non-urban high, high mid and low value areas to be reasonable (and if anything on the cautious side). Furthermore, the allowances for the strategic sites are also considered to be acceptable for the viability testing. However, for the low mid and mid value areas, we consider the allowances to be overly cautious, particularly in light of an allowance of £150,000 per net Ha in relation to abnormal costs. For the purposes of the viability modelling, we would recommend the following adjusted allowances:

Table 6.8 – Recommended BLV assumptions

Value area	Urban / sub urban (£ / Ha)	Non-urban (£ / Ha)
High	£2,100,000	£530,000
High mid	£1,600,000	£480,000
Mid	£900,000	£420,000
Low mid	£500,000	£380,000
Low	£200,000	£360,000

6.18.22. However, please note that the above is applicable to parcels of land which would be acquired by a developer. For single dwelling schemes, which we have assumed would be developed by owner occupiers, the market is different as there is no developer profit allowance in the calculation. For this reason, for our Type 1 typology (i.e. a single dwelling) we have adopted the above rates plus an additional fixed allowance of £20,000 (which is considered appropriate to reflect the fact that smaller sites often carry higher rates per Ha, for reasons of quantum).

7. Plan Costs

7.1. Emerging Policy / Standard – National Described Space Standards (“NDSS”)

7.1.1. This acts as an optional planning condition, which can be introduced through a Council’s Local Plan following a viability assessment (it is not therefore currently a statutory requirement). This deals with internal spaces of new dwellings, setting out the following aspirations:

Table 7.1 – Minimum gross internal floors areas and storage (sq m)

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) *			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	

7.1.2. The Councils are seeking advice as to the potential impact the introduction of this policy would have on plan viability.

7.1.3. The above NDSS rates provide minimum figures dependent on the number of bedrooms, storeys, and occupants in a dwelling. However, for each dwelling there is some flexibility as different minimum requirements are adopted dependent on the intended bedspaces in a dwelling. This recognises the fact that dwellings will not only vary dependent on the number of bedrooms but will also differ depending on whether they are flats, bungalows, terraced, semi-detached, detached etc and also how many storeys are provided. For example, in the 3 bed dwelling category the minimum standards provide two further sub-categories, relating to the number of persons and also the number of storeys. For each of these sub-categories a different minimum dwelling size is indicated, as follows:

Table 7.2 – NDSS 3 bed dwelling category example

Number of beds	Number of persons	1 storey (sqm)	2 storey (sqm)	3 storey (sq m)
3	4	74	84	90
3	5	86	93	99
3	6	95	102	108

7.1.4. In summary, to meet the NDSS standard a 3 bed dwelling could therefore range from 74 to 108 sq m dependent on the style of dwelling and number of storeys. A similar fluctuation in size also applies to all other dwellings (with bedrooms ranging from 1 to 6).

7.1.5. The Councils are subsequently looking to assess how the introduction of the NDSS would impact on the viability testing of the Local Plan, and in particular whether this would have a negative affect on viability.

- 7.1.6. From a plan viability testing perspective, it is not possible or necessary to test all of the variations of the NDSS standard. This is because there would be several thousand size iterations which would need testing, which is not practical. Furthermore, it is unnecessary to attempt to guess the precise mix that a developer would look to apply, instead the guidance states that an average viability assumption complimentary to the local market should be adopted.
- 7.1.7. In this regard, specifically for the purpose of a plan viability test, it is reasonable to adopt average NDSS dwelling sizes, based simply on the number of bedrooms. To arrive at an average we have identified the lowest and highest sizes for each dwelling category and taken the middle point between the two. For single dwelling schemes, though, we have allowed the highest NDSS rate, as it is assumed for single plots larger dwellings would be provided.
- 7.1.8. Having established the average for the NDSS, we have then looked to compare this with the Councils' previous assumptions on dwelling size. This is to determine whether there is any significant change if the NDSS is applied. The results are summarised below. Please note we have only included dwellings ranging from 1 to 4 bedrooms, as this is consistent with past viability assumptions and also reflects the majority of the dwelling types that are likely to be brought forward during the plan period. Furthermore, we have looked to mirror the dwelling types as previously assumed by the Councils and therefore have assessed flats and houses separately.

Table 7.3 – NDSS average sizes compared with previous Councils assumptions

Number of beds	Low (sq m)	High (sq m)	NDSS Average (sq m)	Councils Average (sq m)	Change %
1b flat	39	50	44.50	45.00	-1.12%
2b flat	61	70	65.50	60.00	8.40%
3b flat	74	95	84.50	75.00	11.24%
2	70	79	74.50	70.00	6.04%
3	84	108	96.00	84.00	12.50%
4	97	130	113.50	121.00	-6.61%

7.1.9. Adopting the average NDSS therefore would result in a nominal reduction in size for 1b flats, but a more significant reduction in size for 4b dwellings. All of the other categories (being 2 and 3 bed flats and houses) show an increase ranging from circa 6% to 12.50%.

7.1.10. During the stakeholder engagement in Autumn 2017 a number of comments were raised with regard to the emerging policy regarding NDSS, which can be summarised as follows:

- The introduction of NDSS needs to be tested thoroughly to understand its potential impact on viability.
- The impact of potentially larger dwellings should be considered on land supply.
- Issue of affordability. Concern that larger houses will be less affordable (as the price would naturally be increased if the NDSS increased the size of dwellings).
- Size of dwellings is dictated by market demand.
- Introduction of NDSS would narrow the choice to purchasers.

7.1.11. In light of these comments, we have firstly considered the impact NDSS would have on overall scheme density. We have calculated the average area (shown in sq m) per net developable hectare for both the NDSS and the Councils previous assumptions. The results are shown below:

Table 7.4 – Council previous area assumptions density (sq m per net Ha)

Value area	15 units	50 units	100 units	100 flats	Assisted Living
High	4,827	3,988	3,200	22,800	4,950
High mid	4,491	3,840	3,200	-	4,950
Mid	4,097	3,558	3,053	-	4,950
Low mid	3,920	3,452	3,414	-	4,950
Low	3,920	3,359	3,414	-	4,950

Table 7.5 – NDSS density using average figures (sq m per net Ha)

Value area	15 units	50 units	100 units	100 flats	Assisted Living
High	4,841	4,018	3,290	24,440	5,080
High mid	4,682	3,948	3,290	-	5,080
Mid	4,315	3,767	3,196	-	5,080
Low mid	4,370	3,729	3,687	-	5,080
Low	4,370	3,685	3,687	-	5,080

7.1.12. As shown above, using the average sizes, the introduction of the NDSS has only a marginal impact on the density rates for schemes within High and High mid locations, as well as the Assisted Living schemes. On this basis, the impact of introducing NDSS to sites within the High and High mid value locations, as well as the Assisted Living typology, is likely to have only a marginal impact on viability and certainly not to the extent that would render a scheme unviable.

7.1.13. With regards to sites in low, low mid, and mid value areas, as well as urban flatted schemes, the increase in overall density is broadly around 5% to 10%. However, it is stressed that this is based on the application of the average NDSS figures. If the minimum NDSS figures are applied, the overall densities are significantly reduced, as follows:

Table 7.6 – NDSS density using minimum figures (sq m per net Ha)

Value area	15 units	50 units	100 units	100 flats	Assisted Living
High	4,173	3,508	2,880	22,280	4,560
High mid	4,055	3,456	2,880	-	4,560
Mid	3,806	3,328	2,813	-	4,560
Low mid	3,920	3,332	3,270	-	4,560
Low	3,920	3,299	3,270	-	4,560

- 7.1.14. Whilst it is stressed that for the purposes of the viability testing we have looked at average NDSS rates, the above shows that if the minimum NDSS figures are applied the density reduces significantly, to the most part below the assumptions previously made by the Council in its viability testing. The application of the NDSS therefore allows some flexibility for developers.
- 7.1.15. Notwithstanding this, having considered the NDSS density rates, taking into account the local market dynamics and the value bandings involved (where there would be an increased use of terraced and semi-detached dwellings, as well as 2.5 and 3 storey dwelling types) we consider the average NDSS figures to be realistic and deliverable, certainly for the purposes of the viability testing. We do not therefore believe that the introduction of the NDSS would undermine sites coming forward and furthermore we do not consider it necessary to adjust the net developable areas for the purposes of the testing. This is also considered to be the case within the context of the Council's emerging public open space policy, where there is likely to be a mix of on and off-site provision (please see below 7.2 for further details).
- 7.1.16. As for market demand and affordability for purchasers we have considered the overall impact the NDSS would have on the viability testing when considering the value of 2 and 3 bed dwellings (compared with the Council's previous assumptions). Using the Council's previous average size assumptions, a 3b house would extend to 84 sq m. For the purposes of the exercise only, applying a rate equivalent to £1,750 per sq m would give an overall house value of £147,500. Adopting the NDSS average would increase the size to 96 sqm. Again, adopting £1,750 per sq m would therefore increase the overall value to £168,000 (an increase of around 14%). For a 2b house, the increase would be less pronounced, being from £122,500 to £130,375 (increase of around 6.5%).
- 7.1.17. It is stressed that the above examples are arbitrary, as in reality (for reasons of quantum) larger dwellings command lower rates per sq m. In other words, if a rate of £1,750 per sq m applied to a 3 bed houses of 84 sq m (in a lower value area), a lower rate would be applicable to a 3 bed house of 96 sq m. For the larger units, an

adjustment £1,700 per sq m is considered reasonable, for the purposes of the example. This would reduce the NDSS 3 bed to £163,200 and the 2 bed to £126,650.

- 7.1.18. From an affordability perspective, assuming the NDSS average was applied to a 3 bed house, assuming a 90% mortgage, the level of deposit would increase by £1,570. In terms of mortgage repayments, assuming a capital repayment debit interest rate of 2% for a 35 year term fixed for 2 years (which have become increasingly popular mortgage products in recent years, particularly for first time buyers), the monthly mortgage payment would increase from circa £492 per calendar month (“pcm”) to £544 pcm, or an uplift of £52 pcm.
- 7.1.19. Similarly, assuming the NDSS average was applied to a 2 bed house, assuming a 90% mortgage, the level of deposit would increase by £415. In terms of mortgage repayments, assuming a capital repayment debit interest rate of 2% for a 35 year term (fixed for 2 years), the monthly mortgage payment would increase from circa £368 per calendar month (“pcm”) to £391 pcm, or an uplift of £23 pcm.
- 7.1.20. For some purchasers, the increases outlined above may be unaffordable. However, for others the increases would be relatively comfortable and would not undermine their ability to proceed with a purchase. On this basis, we do not anticipate the application of the NDSS would undermine the purchaser market, as was raised as a concern from a stakeholder response. It may, though, have a narrowing effect on the purchaser market, which in turn may have some limited impact on sales rates.
- 7.1.21. In summary:
- For the purposes of the viability testing a single, average NDSS figure can be applied to 1, 2 and 3 bed flats, as well as 2, 3 and 4 bed houses.
 - Applying the NDSS to the viability modelling would lower the size of 1 bed and 4 bed dwellings, compared with previous assumptions. However, for 2 and 3 bed dwellings there would be an increase. When taken as a whole, the overall internal space assumptions for a scheme using the NDSS averages are similar to what was applied in previous Newcastle / Gateshead viability studies.

- However, in practice, it should be noted that there is flexibility in the application of the NDSS, through the range of dwelling sizes provided (with the minimum NDSS sizes allowing a significantly reduced density rate in circumstances where this is required). Where the minimum NDSS figures are applied the density of the scheme reduces significantly.
- For the purposes of the viability modelling, though, we consider it appropriate to apply the NDSS average figures. Adopting this approach increases density rates in some value locations. However, this is not considered to be to the extent as to undermine scheme delivery. For this reason, if the NDSS is applied to the viability testing the net developable areas would not require adjustment.
- There may be some limited impact on affordability in the market place, however for most purchasers it is not envisaged that the increase in size impact on their ability to proceed with a purchase. However, a slight narrowing of the purchaser market could be argued to result in a slight slowing of sales rates, which should be considered as part of the viability testing.

7.2. Open space standards

7.2.1. With regard to the open space standards in the local plans the Councils are each proposing the following standards in their local plans (Policies MSGP41 & DM31):

Table 7.7 – Newcastle and Gateshead emerging space standard policies

Newcastle policy DM30 & 31	Ha per 1,000 persons	Gateshead policy MSGP40 & 41	
Allotments	0.30	Open space	2Ha per 1,000 persons
Amenity Green space	1.00	Play	7 sq m per person
Park & recreation	0.80		
Play space (children)	0.02		
Play space (youth)	0.02		
	2.14		

7.2.2. The standards can be provided both on-site and off-site, depending on the specific circumstances of the development and local need. In practice, therefore, some of the requirements may not apply to all sites.

7.2.3. In terms of testing viability, it is necessary to ensure the above space standards are appropriately factored into the appraisals (whilst also acknowledging that in reality the full requirement is unlikely to apply to all sites). This involves firstly assessing the likely number of persons at each site type. Once identified, the required on-site / off-site provision can then be calculated. However, consideration needs to be given to ensure there is no double-counting between existing free space available on-site and off-site provision. Once this has been factored in, the estimated costs for providing the on-site / off-site provision can then be finalised.

7.2.4. Gateshead Council has an existing formula for calculating its open space requirements, as detailed in Appendix 1 of the “Planning Obligations Supplementary Planning Document First Review” (Adopted December 2016). We have subsequently applied the formula to the various site types and the results can be summarised as follows (please note where there is undeveloped land available on site, i.e. where the

gross to net ratio is not 100%, we have assumed the surplus would be used to meet part of the open space provision, therefore reducing the off-site contribution):

Table 7.8 – Gateshead off-site open space contributions

	Gross to net ratio	Off-site contribution per dwelling
Site Type 1: 1 unit	100%	n/a
Site Type 2: 15 unit	100%	£516 to £708
Site Type 3: 50 units	90%	£505 to £615
Site Type 4: 100 units	75%	£429 to £446
Site Type 5: 100 flats	100%	£330
Site Type 6: Assisted Living	70%	£111

7.2.5. It is stressed that the above figures represent the full policy requirement. In reality, as indicated above, it is unlikely that this full requirement will apply to all sites (as the requirement is dependent on local need). This should be taken into account in the appraisal testing.

7.2.6. For Newcastle, to identify the number of persons for each scheme we have followed the average persons per dwelling figures as shown in the “Planning Obligations Supplementary Planning Document” (Adopted Jan 2016), which states the following:

- Flat 1 bed - average occupancy 1.20
- Flat 2 bed - average occupancy 1.54
- Flat 3 bed / House 2 bed - average occupancy 1.76
- House 3 bed - average occupancy 2.32
- House 4 bed - average occupancy 2.95

7.2.7. Having established the average number of persons per site typology we have then considered the costings of meeting the policy requirement (as shown in the “Newcastle Open Space Assessment 2016-2030” report Oct 2017), which states the following:

Allotments	-	£90 per person
Parks & recreation grounds	-	£576 per person
Play space (children)	-	£34 per person
Play space (youth)	-	£34 per person
Amenity / natural green space	-	£150 per person

7.2.8. Using the above we have then calculated the cost of meeting the open space standard. Please note, where there is undeveloped land available on site, i.e. where the gross to net ratio is not 100%, we have assumed the surplus would be used to meet the amenity / natural green space requirement):

Table 7.9 – Newcastle off-site open space contributions

	Gross to net ratio	Off-site contribution per dwelling
Site Type 1: 1 unit	100%	n/a
Site Type 2: 15 unit	100%	£1,853 to £2,385
Site Type 3: 50 units	90%	£1,566 to £1,852
Site Type 4: 100 units	75%	£1,649 to £1,806
Site Type 5: 100 flats	100%	£1,247
Site Type 6: Assisted Living	70%	£382

7.2.9. Again, it is stressed that the above figures reflect the maximum policy ask. In reality, as the policy is subject to local need, it is unlikely the full ask would be imposed on all sites. This should be taken into account in the modelling.

7.2.10. In summary, the modelling assumes some of the emerging open space standards will be provided through available on-site land. Where this is not possible, an off-site provision will be required, albeit the level of this off-site provision will vary from site to site depending on development circumstances and local need. The figures given above are therefore the maximum policy asks and in reality are unlikely to apply to all sites. This should be recognised in the viability testing.

7.3. Accessible and adaptable dwellings

7.3.1. Newcastle's emerging policy "DM6 – Accessible and Adaptable Housing" proposes that for all schemes over 11 dwellings, 25% of the on-site dwellings will be built to general accessible and adaptable standards. The policy refers to meeting Building Regulation M4 (2).

7.3.2. Similarly, Gateshead's emerging policy MSGP11 also requires 25% all sites providing 15 or more dwellings to meet Building Regulation M4 (2).

7.3.3. M4 (2) is a standard set out in the "Access to and use of buildings: Approved Document M", part of the Building Regulations 2010. To meet the standard dwellings the following must be provided:

- (i) Reasonable provision must be made for people to gain access to and use the dwelling.
- (ii) The dwelling must meet the needs of occupants with differing needs, including some older or disabled people.

- (iii) The dwelling must allow future adaptation to meet the changing needs of the occupant over time.

7.3.4. As this is an optional standard, there is limited available evidence to demonstrate the impact meeting this standard would have on overall build costs. For this reason, it is considered the EC Harris “Housing Standards Review – Cost Impacts” report from Sept 2014 provides an important evidence base for the construction costings. The report includes a variety of cost estimates related to construction work, process costs, approval costs etc. Please see below a breakdown of the costs shown in the EC Harris, indexed to March 2018.

Table 7.10 – Summary of EC Harris M4 (2) cost estimates, plus indexation

M4 (2)	1b flat	2b flat	2b house	3b house	4b house
Access cost	£ 940	£ 907	£ 523	£ 521	£ 520
Process costs	£ 48	£ 48	£ 48	£ 48	£ 48
Access recipient cost	£ 4	£ 4	£ 4	£ 4	£ 4
Access type approval cost	£ 416	£ 416	£ 416	£ 416	£ 416
Access type approval recipient cost	£ 92	£ 92	£ 92	£ 92	£ 92
	£ 1,500	£ 1,467	£ 1,083	£ 1,081	£ 1,080
Allowing for RPI indexation since Sep 14 (6%)	£ 1,590	£ 1,555	£ 1,148	£ 1,146	£ 1,145

7.3.5. Please note, at the time of the EC Harris report there was no minimum dwelling size standard (the NDSS was first introduced in 2015, after the report). In their review, EC Harris subsequently made an additional “access related space cost” for providing slightly larger dwellings. As the NDSS already allows for increased dwelling sizes (compared to the assumptions made in the EC Harris report), this additional cost has been excluded from our analysis (as inclusion would reflect double-counting).

7.3.6. The overall cost impact of the M4 (2) standards is therefore considered to be relatively small when applied to 25% of the dwellings. For a scheme of 15 dwellings, the overall cost impact is likely to be in the region of £5,000 in total, for a 50 dwelling scheme circa £17,500 overall and for a 100 dwelling scheme approximately £35,000 in total.

- 7.3.7. In the viability modelling, the scheme typologies that provide 15 or more dwellings should therefore incorporate the 'over and above' costs calculated above.
- 7.3.8. However, if the proportion of M4 (2) standards adopted on new development is increased this will start to have a greater impact in terms of costs and therefore the viability outcome. For example, if the M4 (2) standards were to be applied to 50% of a scheme, at 15 dwellings the cost impact would increase to around £10,000, 50 dwellings around £30,000 and 100 dwellings circa £60,000. At 100%, the impact is naturally greater still, being around £20,000 for a 15 dwelling scheme, £60,000 for a 50 dwelling scheme, and £125,000 for 100 dwellings.
- 7.3.9. Testing should therefore also consider the impact of increasing the proportion of M4 (2) to determine its impact on viability outcomes.
- 7.3.10. The EC Harris report also provides costings for M4 (3), which relates to wheelchair access. These costs are significantly higher and comes in two levels: M4 (3a) adaptable and M4 (3b) accessible. For M4 (3a), indexed to March 2018, the extra-over construction cost (after allowances for inflation) equates to roughly £9,000 to £12,500 per dwelling. For M4 (3b) this increases to up to circa £25,000 per dwelling. In both cases, the M4 (3) standard would therefore have a greater impact on viability when compared to the M4 (2) standard.

7.4. Electric charging points

- 7.4.1. The CSUCP policy CS13 requires major residential development schemes to enable dwellings to access electric charging points for electric vehicles. This cost is equivalent to £100 per dwelling. This therefore needs to be reflected in the viability testing.

7.5. S106 and CIL Payments

- 7.5.1. Policy CS11 of the CSUCP also requires a provision of 15% affordable housing across all residential site types where 15 or more dwellings are provided. This therefore needs to be factored into any appraisal testing.
- 7.5.2. However, as indicated above the NPPF sets out a number of different dwelling types that qualify as affordable housing. The viability testing should therefore allow for different mixes of these dwelling types, in accordance with the wider policy requirements of the Councils.
- 7.5.3. The Councils each have adopted CIL charging schedules (2016), imposing the following levy rates:
- £60 per sq m for Residential Zone A
 - £30 per sq m for Residential Zone B
 - £0 per sq m for Residential Zone C
- 7.5.4. For the purposes of the Local Plan viability testing, the Councils must apply the highest rate of £60 per sq m to the 'high mid' non-urban areas and £30 per sq m charge to the 'high' value urban areas. For the remainder there would be no CIL charge. It is necessary to include the relevant CIL charges in the appraisal testing.
- 7.5.5. Whilst CIL is set at a fixed rate, other capital S106 contributions will fluctuate from site to site dependent on policy, local need and the impact of CIL collections via the Regulation 123 List. It is therefore appropriate, for the purposes of a plan-wide viability study, to identify an average S106 cost to apply to the modelling. In this respect, the Councils have previously proposed the following allowances:
- £2,000 for urban schemes
 - £7,300 for non-urban schemes (for Newcastle)

- 7.5.6. Furthermore, for the purposes of plan viability testing it is not therefore appropriate to adopt a ‘worst case’ position whereby the maximum policy contributions are applied. Likewise, adopting a nil contribution would be as equally unrealistic. The Harman Review and subsequent PPG guidance again indicates that *average costs* should be factored into the appraisal testing.
- 7.5.7. We have also reviewed past S106 contributions collected by the Councils from new development, both on a pre and post CIL basis (where possible).
- 7.5.8. For Gateshead, developments have been analysed since 2010, as provided by the Council. The average contributions collected are broken down into the following value areas, shown as a rate per dwelling:

Gateshead

High value	-	£528 per dwelling
High mid value	-	£3,570 per dwellings
Mid value	-	£448 per dwelling
Mid low	-	£950 per dwelling
Low	-	£1,044 per dwelling

- 7.5.9. The majority of S106 contributions collected were therefore circa £500 to £1,000 per dwelling. The only exception was the high mid value location, where the average increased significantly to circa £3,500 per dwelling. Having reviewed the data this increased figure can be explained by the following factors:

- One of the sites in the sample had a significantly higher S106 requirement than any other scheme in the data (being equivalent to circa £30,000 per dwelling). This is considered to be anomalous and should be removed for the purposes of identifying an average.

- Of more significance is that within the High mid value area there are 2 large projects at a single settlement (Crawcrook), where the contributions were, at the time, increased to circa £4,500 to £5,500 per dwelling to meet specific local need. It is also noted that these contributions were charged before CIL was introduced. If CIL had been in place at the time we anticipate these contributions would have been significantly reduced.

7.5.10. If these anomalous elements are removed, the average for the high mid value area reduces to £1,650 per dwelling, closer to the contributions collected across the other value areas. On this basis, all of the Gateshead past S106 contributions would fall below the £2,000 per dwelling allowance made in the viability testing.

7.5.11. As side, only 1 of the 72 schemes analysed took place post CIL, therefore a breakdown between pre and post CIL is not possible from the available data.

7.5.12. Taking into account the above comments, further analysis has been undertaken for the Gateshead data, assessing this for 'urban' and 'non-urban' locations. For the urban areas the average contribution equates to £872 per dwelling. For non-urban locations this increases to an average of £3,926 per dwelling. Again, though, it is noted that the non-urban contributions were made prior to the introduction of CIL, therefore it is anticipated that the S106 contributions will reduce (as some of these contributions will be reflected in the CIL collection).

7.5.13. For Newcastle, again scheme S106 contributions were analysed post 2010, as provided by the Council. The average contributions collected, excluding strategic sites, are broken down into the following value areas, shown as a rate per dwelling:

Newcastle (excluding strategic sites)

Urban core High value	-	£102 per dwelling
High value	-	£383 per dwelling
High mid value	-	no data
Mid value	-	£1,126 per dwelling

Mid low	-	£3,041 per dwelling
Low	-	£294 per dwelling

7.5.14. Strategic sites show a considerably higher range. For mid value areas an average of £9,357 per dwelling is recorded and for high mid £6,806 per dwelling is shown.

7.5.15. We have also analysed the data as a whole (i.e. not breaking down the data into the value areas):

- The first data set shows schemes between 2010 and 2014, giving an average of £2,076 per dwelling (excluding the Newcastle Great Park strategic site, where the contribution was anomalous at £14,494 per dwelling).
- The second data set is from 2014 to 2018. For urban sites, the average S106 contribution equates to circa £2,500 per dwelling. However, it is noted that all but one of the data is before the introduction of CIL and therefore it is reasonable to assume the contributions are likely to reduce with CIL now in place. For non-urban schemes, the average pre CIL equates to just under £10,000 per dwelling (roughly half the sample).
- However, post CIL the average contribution has reduced significantly to just under £4,000 per dwelling.

7.5.16. Having analysed past S106 contributions, and also having considered the emerging policies (noting that in reality a full policy ask is unlikely to impact on every site), a general allowance of £2,000 per dwelling is considered to be reasonable and proportionate for the majority of the Gateshead and Newcastle site typologies (which in particular includes the revised standards of the emerging Local Plans in relation to open space standards). However, the increase in Newcastle to £7,300 per dwelling for non-urban site appears overly cautious and more reflective of sites prior to the introduction of CIL. We consider a reduction to £4,000 per dwelling to be justifiable.

8. Plan Viability Testing

8.1. Base appraisals

8.1.1. See Appendix 13. For the purposes of the plan testing, our initial base modelling assumes the following key inputs:

- Typologies comprising 1, 15, 50 and 100 dwellings, plus a 100 flat site typology and a 40 sheltered accommodation flat typology.
- 15% affordable housing applied to all typologies (except for the 1 dwelling typology). Tenure mix circa 65% affordable rented, 35% shared ownership.
- Each typology tested assuming it is in the high, high mid, mid, low mid and low values areas (except for the 100 flat typology which has only been tested in the high value area, which is considered to be the same as the Newcastle City Centre market).
- Each typology tested assuming it is in an urban and non-urban location (except for the 100 flat typology which has only been tested in the high value area). However, please note, there are no 'non-urban' areas within the identified Low and Low-mid viability profile areas.
- Average NDSS dwelling sizes have been applied, in accordance with the approach outlined above in Chapter 7.
- BCIS median build costs for high value locations, and BCIS lower quartile for low, low-mid and mid value locations. For high-mid value locations and figure in between the BCIS lower quartile and median has been applied.
- External, professional fees and contingency totalling 25% of build costs.
- Abnormal costs equivalent to £150,000 per net Ha (increased to £300,000 per net Ha for city centre locations).
- S106 costs totalling £2,000 per dwelling, representing an average 'pot' allowance to meet a variety of policy requirements (including any open space standards not met by an on-site provision). This is also tested at £4,000 per dwelling for non-urban sites.

- CIL charge of £30 per sq m for high value urban locations and £60 per sq m for non-urban high-mid value locations.
- Developer profit 20% on revenue for market value dwellings and 6% on revenue for affordable units, except for a 1 dwelling typology where it is assumed the developer would be the owner occupier (therefore would not look to seek a capital return).
- For urban sites, Benchmark Land Values ranging from £200,000 (in low value areas) to £2.1million per net Ha (in high value areas). For non-urban sites a range of £360,000 (low value area) to £530,000 (high value area) per net Ha.

8.1.2. For the 1 dwelling typologies all of the variations show a viable outcome (summarised below), except for those located in the low value area, where the scheme is shown to be unviable. This is a significant improvement on all previous viability testing undertaken by the Councils, which showed all single dwelling schemes were unviable. The key reason for the change in outcome is the assumption regarding profit. In light of the government’s increasing focus on ‘self-build’ schemes it is reasonable to test a model which assumes an owner occupier. Furthermore, it is also stressed that single dwelling schemes are being delivered in the market place, which suggests there is viability in this particular sector.

Table 8.1 – Base Appraisal Type 1 (1 dwelling)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	41.30%	Viable
High mid	Urban / suburban	28.70%	Viable
Mid	Urban / suburban	38.98%	Viable
Low mid	Urban / suburban	6.00%	Viable
Low	Urban / suburban	-24.88%	Unviable
High	Non-urban	43.03%	Viable
High mid	Non-urban	17.69%	Viable
Mid	Non-urban	35.61%	Viable

8.1.3. For 15 dwelling schemes, all scenarios are shown to be viable in the mid, high-mid and high value locations. Most sites in low-mid value areas are unviable, albeit only marginally. Schemes in low value areas are also shown to be unviable. This is a similar outcome to previous viability tests undertaken by the Councils.

Table 8.2 – Base Appraisal Type 2 (15 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	65.91%	Viable
High mid	Urban / suburban	38.61%	Viable
Mid	Urban / suburban	36.56%	Viable
Low mid	Urban / suburban	-12.56%	Unviable
Low	Urban / suburban	-146.43%	Unviable
High	Non-urban	563.14%	Viable
High mid	Non-urban	301.35%	Viable
Mid	Non-urban	173.77%	Viable

8.1.4. For 50 dwelling schemes, the outcome was again similar to previous viability results, with all high, high-mid and mid value areas shown to be viable. Again, viability pressure was the greatest in the low value locations, with schemes being shown as marginally unviable in the low-mid value urban / suburban area.

Table 8.3 – Base Appraisal Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	18.31%	Viable
High mid	Urban / suburban	1.67%	Viable
Mid	Urban / suburban	2.33%	Viable
Low mid	Urban / suburban	-34.29%	Unviable
Low	Urban / suburban	-127.56%	Unviable
High	Non-urban	371.70%	Viable
High mid	Non-urban	190.44%	Viable
Mid	Non-urban	105.33%	Viable

8.1.5. For 100 dwelling schemes, the outcomes were identical to previous viability testing undertaken by the Council. There was viability pressure on all urban site tests, with each showing a marginally unviable outcome (in the high, high mid, mid and low-mid locations). However, for non-urban tests high, high mid and mid value areas were each shown to be viable.

Table 8.4 – Base Appraisal Type 4 (100 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	-4.21%	Unviable
High mid	Urban / suburban	-17.13%	Unviable
Mid	Urban / suburban	-12.74%	Unviable
Low mid	Urban / suburban	-29.38%	Unviable
Low	Urban / suburban	-92.80%	Unviable
High	Non-urban	281.80%	Viable
High mid	Non-urban	141.95%	Viable
Mid	Non-urban	75.79%	Viable

8.1.6. For 100 flats the outcome was unviable.

Table 8.5 – Base Appraisal Type 5 (100 flats)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	-116.01%	Unviable

8.1.7. For 40 sheltered flats the outcome was only viable in urban high value areas, or non-urban high-mid and high value areas.

Table 8.6 – Base Appraisal Type 6 (40 sheltered flats)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	25.47%	Viable
High mid	Urban / suburban	-21.29%	Unviable
Mid	Urban / suburban	-92.15%	Unviable
Low mid	Urban / suburban	-259.74%	Unviable
Low	Urban / suburban	-777.61%	Unviable

High	Non-urban	391.65%	Viable
High mid	Non-urban	98.11%	Viable
Mid	Non-urban	-114.05%	Unviable

- 8.1.8. With regards to our assisted living scheme assessments base appraisals (which excluded the requirements to meet the M4 (2) accessible and adaptable standards), our appraisal testing showed that only the ‘high’ value urban / suburban model returned a viable outcome, with a residual land value surplus around 25% higher than the benchmark land value. We subsequently re-ran the model to incorporate the costs of meeting the M4 (2) standards (calculated at £2,000 per dwelling). This appraisal again returned a viable outcome, albeit with a slightly reduced surplus of around 19% over the benchmark land value. This suggests that the impact of the M4 (2) standard would not be sufficient to change the viability outcome.
- 8.1.9. As a side, we would also stress that, in reality, it would be expected that an assisted living scheme would already meet or exceed the requirements of M4 (2) through its existing accommodation products. It is therefore debatable as to whether it is necessary to ‘add in’ a further allowance for M4 (2), as these costs are expected to already be accounted for in the BCIS rate applied (and adding in a further allowance would therefore risk double-counting). Nevertheless, our appraisal testing demonstrated that in any case the impact of adding in additional M4 (2) costs would not be significant enough to change the viability outcome.

8.2. Scenario 1 – accessible and adaptable M4 (2)

- 8.2.1. See Appendix 14. For the purposes of this sensitivity analysis we have applied M4 (2) costs to 15, 50 and 100 dwelling typologies. Our appraisals adopt all of the assumptions outlined above in the base testing and in particular it should be noted that this assumes all affordable dwellings would be provided as affordable rented units, not intermediate / shared ownership. This testing partially conflicts with the NPPF publication in July 2018, which states that at least 10% of affordable units should be provided in some form of *home ownership*, rather than rented. In this

respect, the approach is regarded as being cautious as including some form of affordable ownership would have a positive impact on viability. Nevertheless, we consider this cautious approach to be reasonable for the purposes of the viability testing. Furthermore, we have undertaken NPPF policy complaint scenarios as part of the sensitivity testing (see section 8.4). With regards to the M4 (2) accessible and adaptable standard, we have allowed an additional capital cost equivalent to £2,000 per dwelling to cover this requirement (deducted from the residual land value in the appraisal testing).

8.2.2. For the purposes of the analysis we have tested the following proportions of M4 (2):

- 25% (in line with the emerging policy)
- 50%
- 90% (as suggested as the upper limit in the Strategic Housing Market Assessment)

8.2.3 With M4 (2) standards applied to 25% of the dwellings (appendices 5.1 to 5.3), it undoubtedly increases the pressure on viability as it is an additional cost to bear for a developer. However, the costs are considered to be relatively small when applied to 25% of the dwellings. The appraisal outcomes show that, whilst the viability pressure increases, it does not fundamentally change the viability outcome of any of the appraisals. On this basis, we consider that this policy will have only a limited impact if applied to 25% of the dwellings and would not be to the extent as to undermine scheme viability (paragraph 34 of the July 2018 NPPF states that policies should not undermine deliverability of the plan).

Table 8.7 – M4 (2) 25% Type 2 (15 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	65.25%	Viable
High mid	Urban / suburban	37.73%	Viable
Mid	Urban / suburban	35.00%	Viable
Low mid	Urban / suburban	-15.79%	Unviable

Low	Urban / suburban	-154.70%	Unviable
High	Non-urban	560.50%	Viable
High mid	Non-urban	298.43%	Viable
Mid	Non-urban	170.44%	Viable

Table 8.8 – M4 (2) 25% Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	17.76%	Viable
High mid	Urban / suburban	0.95%	Viable
Mid	Urban / suburban	1.05%	Viable
Low mid	Urban / suburban	-36.68%	Unviable
Low	Urban / suburban	-129.42%	Unviable
High	Non-urban	369.54%	Viable
High mid	Non-urban	189.76%	Viable
Mid	Non-urban	102.60%	Viable

Table 8.9 – M4 (2) 25% Type 4 (100 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	-4.67%	Unviable
High mid	Urban / suburban	-17.72%	Unviable
Mid	Urban / suburban	-13.80%	Unviable
Low mid	Urban / suburban	-31.67%	Unviable
Low	Urban / suburban	-113.41%	Unviable
High	Non-urban	280.00%	Viable
High mid	Non-urban	139.96%	Viable
Mid	Non-urban	73.52%	Viable

8.2.4 If the M4 (2) standard is applied to 50% of the dwellings (appendices 5.4 to 5.6), the viability pressure increases further. For 50 dwellings urban / suburban schemes in the mid and high-mid areas this turns a previously viable scheme into an unviable project (marked red in the table below). Increasing the proportion of M4 (2) to this level therefore has a tangible impact on some scheme viability.

Table 8.10 – M4 (2) 50% Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
------------	-----------	--------------------------------	---------

High	Urban / suburban	16.75%	Viable
High mid	Urban / suburban	-0.37%	Unviable
Mid	Urban / suburban	-1.30%	Unviable
Low mid	Urban / suburban	-41.12%	Unviable
Low	Urban / suburban	-146.08%	Unviable
High	Non-urban	365.53%	Viable
High mid	Non-urban	183.63%	Viable
Mid	Non-urban	97.54%	Viable

8.2.5 If the M4 (2) standard is applied to 90% of the dwellings (appendices 5.7 to 5.9), the impact is more significant with the viability pressure again increased. Again, for 50 dwellings urban / suburban schemes in the mid and high-mid areas this turns a previously viable scheme into an unviable project (marked red in the table below). Increasing the proportion of M4 (2) to this level therefore again has a tangible impact on some scheme viability.

Table 8.11 – M4 (2) 90% Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	15.51%	Viable
High mid	Urban / suburban	-2.01%	Unviable
Mid	Urban / suburban	-4.21%	Unviable
Low mid	Urban / suburban	-46.59%	Unviable
Low	Urban / suburban	-160.90%	Unviable
High	Non-urban	360.60%	Viable
High mid	Non-urban	178.18%	Viable
Mid	Non-urban	91.31%	Viable

8.2.6 The above testing shows that increasing the proportion of M4 (2) standard properties in a development to 50% or 90% has a negative impact on the overall viability outcomes of some schemes. In other words, the increased viability pressure is sufficient enough to render some schemes unviable (that otherwise would be viable).

In contrast, applying this standard to 25% of dwellings increases the viability pressure (because it is an additional cost), however it is not to the extent that it undermines overall viability. For this reason, a policy at 25% is considered to be at a level which would not undermine viability or the deliverability of either plan (which is in line with para 34 of the July 2018 NPPF).

8.3. Scenario 2 – accessible and adaptable M4 (3)

8.3.1. See Appendix 15. As discussed in previous Chapters, this is a more onerous standard in terms of the works required and cost incurred.

8.3.2. This builds on the testing undertaken in Scenario 1, therefore also includes the M4 (2) costs (i.e. the iterations are cumulative and therefore include M4 (2) at 25%).

8.3.3. M4 (3) has two elements, being M4 3 (a) adaptable and M4 3 (b) accessible, with the costs significantly increasing to meet the latter standard. For the purposes of the testing we have therefore run a number of iterations, as follows:

- Iteration 1: M4 (3) (a) applied to 10% of the dwellings, cost equivalent to £12,500 per dwelling (Appendix 15a)
- Iteration 2: M4 (3) (b) applied to 10% of the dwellings, cost equivalent £25,000 per dwelling (Appendix 15b)
- Iteration 3: Mix of M4 (3) (a) and M4 (3) (b) applied to 10% of the dwellings, cost equivalent £18,750 per dwelling (Appendix 15c)
- Iteration 4: M4 (3) (a) applied to 5% of the dwellings, cost equivalent to £12,500 per dwelling (Appendix 15d)
- Iteration 5: M4 (3) (b) applied to 5% of the dwellings, cost equivalent £25,000 per dwelling (Appendix 15e)
- Iteration 6: Mix of M4 (3) (a) and M4 (3) (b) applied to 5% of the dwellings, cost equivalent £18,750 per dwelling (Appendix 15f)

8.3.4. In Iteration 1, at 10% M4 (3) (a) as outlined above, there is no change in the viability outcomes for the 15 dwelling typology (albeit there is an increase in viability pressure). However, for the 50 dwelling urban / suburban typology there is a change in the viability outcomes of mid and high-mid urban sites, which become unviable with the application of these costs (shown below and marked red). The viability pressure is also increased in the 100 dwelling typology.

Table 8.12 – M4 (3) (a) 10% Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High mid	Urban / suburban	-1.60%	Unviable
Mid	Urban / suburban	-3.48%	Unviable

8.3.5. In Iterations 2 and 3, when the additional M4 (3) (b) costs are factored in the impact on viability is more pronounced. Again, in the 50 dwellings urban / suburban typology the mid and high-mid schemes change from being viable to unviable.

8.3.6. In Iteration 4, at 5% M4 (3) (a), the pressure on viability is lessened. However, again for the urban and suburban 50 dwelling typology the result is a previously viable scheme becomes unviable (shown below and marked red).

Table 8.13 – M4 (3) (a) 5% Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High mid	Urban / suburban	-0.32%	Unviable
Mid	Urban / suburban	-1.21%	Unviable

8.3.7. In Iterations 5 and 6, when M4 (3) (b) costs are applied, the higher costs increases the pressure on viability (albeit no other viability outcome changes).

8.3.8. In conclusion, the impact of meeting the M4 (3) standard is more significant than M4 (2) and, even if only applied to 5% to 10% of the dwellings it is likely to increase the pressure on viability. In particular the assessments have shown the negative impact of M4 (3) (a) costs on the 50 dwelling typologies in the more viable urban areas. That

said, a number of the scheme typologies do return a positive outcome even with the application of these costs (with the 5% proportion naturally showing a reduced pressure on viability).

8.4. Scenario 3 – affordable housing tenure mix

8.4.1. See Appendix 16. As discussed in previous chapters, the NPPF proposes a new definition of affordable housing, with a greater focus on home ownership. In recognition of this we have looked to vary the tenure mix of affordable dwellings to test the likely impact this could have on scheme viability (based on the policy requirement of 15% affordable dwellings).

8.4.2. We have undertaken a number of iterations, as follows:

- 5% affordable rent 5% shared ownership 5% discounted market sale (Appendix 16a)
- 5% affordable rent 10% discounted market sale (Appendix 16b)
- 5% affordable rent 10% shared ownership (Appendix 16c)
- 15% discounted market sale (Appendix 16d)
- 15% shared ownership (Appendix 16e)
- Affordable Rent and off-site contributions (Appendix 16f)

8.4.3. In our base appraisals the tenure mix was heavily weighted towards affordable rented products. All of the above iterations provide a greater focus on affordable ownership. As these generate higher transfer values / sales values than rented products this will generally therefore have a positive outcome on the overall viability of schemes, which is shown in the testing results.

8.4.4. The most significant impact, as expected, are the iterations where all of the 15% affordable dwelling provision is met by affordable ownership products. For the 15 and 50 dwelling typologies, this improves the overall viability and also returns a

positive viability outcome in low-mid locations (shown marked blue in the tables below). For the 100 dwelling typology the majority of the tests now return a viable outcome, with areas that were previously marginally unviable in the base tests (including low-mid and mid value locations) are now shown to be viable.

Table 8.14 – All Shared ownership Type 2 (15 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	71.43%	Viable
High mid	Urban / suburban	43.49%	Viable
Mid	Urban / suburban	45.61%	Viable
Low mid	Urban / suburban	4.38%	Viable
Low	Urban / suburban	-103.58%	Unviable
High	Non-urban	583.42%	Viable
High mid	Non-urban	321.04%	Viable
Mid	Non-urban	193.17%	Viable

Table 8.15 – All Shared ownership Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	24.57%	Viable
High mid	Urban / suburban	8.46%	Viable
Mid	Urban / suburban	11.98%	Viable
Low mid	Urban / suburban	-19.18%	Unviable
Low	Urban / suburban	-91.15%	Unviable
High	Non-urban	396.50%	Viable
High mid	Non-urban	275.99%	Viable
Mid	Non-urban	126.01%	Viable

Table 8.16 – All shared ownership Type 4 (100 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	1.29%	Viable
High mid	Urban / suburban	-11.09%	Unviable
Mid	Urban / suburban	-3.94%	Unviable
Low mid	Urban / suburban	-13.26%	Unviable
Low	Urban / suburban	-68.09%	Unviable

High	Non-urban	303.59%	Viable
High mid	Non-urban	162.13%	Viable
Mid	Non-urban	94.68%	Viable

- 8.4.5. When the iteration testing builds in some affordable rented elements, the impact on viability is still improved when compared to the base modelling, however it is less pronounced than when all of the affordable dwellings are ownership tenure bases (again, which is to be expected).
- 8.4.6. Having an off-site commuted sum also has relatively small impact on viability. The impact is partly moderated by an increase in the profit that is required in the modelling. As discussed above in Chapter 6, the developer profit is ‘split’ for the purposes of the testing, being set at 20% on revenue for market value dwellings and reduced to 6% for affordable. If the affordable dwellings are removed from the modelling, the 20% profit margin therefore has to be applied to all of the scheme dwellings, therefore proportionally the level of developer profit in the appraisals increases. This serves to lessen the benefit, in monetary terms, of having an off-site commuted sum.
- 8.4.7. We therefore conclude that having a greater proportion of affordable ownership products has a positive effect on overall scheme viability. Likewise, applying an off-site commuted sum also improves viability.

8.5. Scenario 4 – low cost developer

- 8.5.1. See Appendix 17. As discussed in previous chapters, certain house builders target lower value locations, specialising in providing products to meet local demand. For the purposes of this scenario this is considered to include housebuilders such as Gleeson, Keepmoat, Kier, Lovell Homes (many of which operate in Newcastle and Gateshead). Their business model, and the nature of the product they provide, allows build costs to be reduced (and below the BCIS lower quartile rates allowed in our base testing). This is shown through the Land off Lowfield Road, Bolton upon Dearne,

Barnsley (APP/R4408/W/17/3170851) appeal decision. Furthermore, other savings are also typically made when compared to house-builders delivering schemes in higher value locations. The savings that can be made aid delivery in areas when viability pressure is high. This is evidenced by sites that have been delivered in lower value locations in the recent past (and continue to come forward). This is in contrast to our base appraisal testing, which indicated that schemes in lower value locations were typically unviable.

8.5.2. To reflect the low-cost developer model, and reflecting evidence we have identified from other low-cost developer appraisals we are aware of (including schemes within the local authority's districts) we have adopted the assumptions as applied to the base appraisals, with the following amendments:

- Plot construction costs reduced to £850 per sq m.
- Externalities 20% of the plot construction costs.
- Professional fees 6% of build costs.
- Debit interest rate 5.5%

8.5.3. However, please note for the purposes of the scenario testing, we have only applied the above to site typologies comprising 50 or 100 houses. This is because low-cost developers are volume housebuilders and, in our experience, will only typically take forward sites of around 50 houses or more (45 has been used as the threshold in testing). Furthermore, the low-cost developer model is not applicable to apartment schemes.

8.5.4. In terms of value location, we have only tested typologies within low, low-mid and mid value areas, on the basis that a low-cost developer would only look to target schemes in these locations.

8.5.5. Applying the above adjustments has a significant impact on the viability outcomes (marked in blue in the tables below). All of the mid, low-mid and low iterations return a viable outcome.

Table 8.17 – Low Cost Developer model Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
Mid	Urban / suburban	41.07%	Viable
Low mid	Urban / suburban	33.22%	Viable
Low	Urban / suburban	45.61%	Viable
Mid	Non-urban	164.15%	Viable

Table 8.18 – Low Cost Developer model Type 4 (100 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
Mid	Urban / suburban	19.26%	Viable
Low mid	Urban / suburban	35.31%	Viable
Low	Urban / suburban	61.86%	Viable
Mid	Non-urban	144.16%	Viable

8.5.6. In summary, the low-cost developer model demonstrates that schemes can be delivered through the private sector in lower value locations. This reflects actual site delivery in recent years and also sites currently being brought forward / promoted.

8.6. Scenario 5 – 5% market value reduction

8.6.1. See Appendix 18. Stakeholders have queried the use of the EPC register data when analysing Land Registry sales prices, in particular raising the issue of whether the areas as stated are too low (on the basis that they do not incorporate garages in the measurements). The effect of the areas being too low would be potentially to over-inflate the average sales values when assessed on a ‘per sq m’ basis.

8.6.2. We consider the use of the EPC register to be appropriate when analysing sales values, for the following reasons:

- (i) In our experience, it is an approach used on a wide-spread basis in preparation of viability assessments for individual planning applications and area wide studies. The method is used by Local Authorities,

surveyors, landowners and house-builders (albeit it is accepted that not all parties consistently use the approach).

- (ii) The approach has been used by the Councils' in the previous area-wide viability and CIL assessments, going back to 2014. It was accepted through the CIL examination process as being an appropriate method.
- (iii) For the purposes of an area-wide study the assessor is looking to establish appropriate average sales values. It is accepted that the sales data collected through the Land Registry will reflect a variety of different dwelling types, some of which will comprise garages and some of which will not. The rates per sq m data will therefore show a range of figures to reflect these variations. However, we have not looked to adopt values at the top end of the range, but instead looked to arrive at average values, which mitigates these variations in the data

8.6.3. However, and whilst we consider our initial approach to be appropriate, to ensure our assessment is as robust as possible we have run sensitivity testing where the adopted values have been reduced by an arbitrary reduction of 5% (limited to the high, high mid and mid value areas, as these were the locations where the main concerns were raised).

8.6.4. For the 1 dwelling typology, the reduction of 5% in revenue does not have a significant change in terms of the viability outcomes, with the majority of sites still returning a viable position (the only scheme that changes is marked below in red).

Table 8.19 – 5% sales value reduction Type 1 (1 dwelling)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	23.87%	Viable
High mid	Urban / suburban	7.12%	Viable
Mid	Urban / suburban	17.40%	Viable
High	Non-urban	25.60%	Viable
High mid	Non-urban	-3.89%	Unviable

Mid	Non-urban	14.03%	Viable
-----	-----------	--------	--------

8.6.5. For 15 dwellings, again the viability outcomes do not change, with all of the mid, high-mid and high value areas being shown to be viable (as was the case with the base appraisals).

Table 8.20 – 5% sales value reduction Type 2 (15 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	43.16%	Viable
High mid	Urban / suburban	9.73%	Viable
Mid	Urban / suburban	5.02%	Viable
High	Non-urban	472.97%	Viable
High mid	Non-urban	205.09%	Viable
Mid	Non-urban	106.19%	Viable

8.6.6. For 50 dwellings, the urban / suburban sites are impacted in the high mid and mid areas (shown in red below). However, this does not change the viability outcome of the non-urban areas.

Table 8.21 – 5% sales value reduction Type 3 (50 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	2.09%	Viable
High mid	Urban / suburban	-19.37%	Unviable
Mid	Urban / suburban	-21.31%	Unviable
High	Non-urban	307.45%	Viable
High mid	Non-urban	120.69%	Viable
Mid	Non-urban	54.65%	Viable

8.6.7. For 100 dwellings, the viability pressure increase however there is no change in the viability outcomes when compared to the base appraisals.

Table 8.22 – 5% sales value reduction Type 4 (100 dwellings)

Value area	Land Type	Surplus / deficit over BLV (%)	Outcome
High	Urban / suburban	-17.22%	Unviable

High mid	Urban / suburban	-34.21%	Unviable
Mid	Urban / suburban	-32.43%	Unviable
High	Non-urban	230.26%	Viable
High mid	Non-urban	84.88%	Viable
Mid	Non-urban	33.54%	Viable

8.6.8. In summary, we consider the use of the EPC Register data to be appropriate in the analysis of revenue when undertaking viability assessments. However, and notwithstanding this, even if sales values were reduced by 5% to reflect any concerns with the accuracy of the EPC Register data (when analysing sales rates) the impact is limited. The results, in terms of whether a scheme is viable or unviable, are similar to the base appraisals.

8.7 Scenario 6 – Build to Rent / Private Rented Sector

8.7.1 Build to Rent is a different concept to a traditional apartment development (where the flats are sold individually on a speculative basis). Under this model the flats are retained by a single investor and held as a longer-term investment. Build to Rent is a growing a sector which is more established in London, but increasingly being brought forward on schemes in regional cities, including Newcastle.

8.7.2 There are different ways Build to Rent can be delivered, however for the purposes of the viability testing we have assumed that the scheme is developed by one party and then upon practical completion is sold to a second party (often institutional investors such as pension funds). It is also assumed that before construction works commence

a contractual agreement is in place to transfer the completed apartment block to the institutional investor. This significantly reduces the risk associated with developing the scheme.

8.7.3 We are aware of a number of Build to Rent projects in Newcastle which have recently been subject to planning applications. We have had regard to these submissions, as well as other Build to Rent schemes we are aware of in Northern, regional cities. In light of these considerations our base appraisal testing adopts the following key assumptions:

- Scheme located in the High urban / suburban area only (as, at the current time, it is likely Build to Rent projects will be focused in locations within close proximity to Newcastle City Centre).
- 300 apartments.
- Average dwelling size 61.10 sq m (which is considered to be NDSS compliant).
- 0.40 Ha gross site area
- Average rent per flat £11,000 per annum.

- 15% of the dwellings to be provided as Affordable Rented units, being offered at 80% of the Market Rent (i.e. £8,800 per annum).
- Gross to net rent deduction of 25% (reflecting management costs, letting fees, voids etc).
- Net rent capitalised at a 5.5% yield.
- Purchaser's costs 5.8% of gross investment value.
- Build costs in line with BCIS median rate.
- External costs a further 5% of the BCIS rate.
- Contingency a further 5% of the BCIS rate and external costs.
- Professional fees a further 10% of the BCIS rate and external costs.
- Abnormals £300,000 per Ha.
- S106 contributions equivalent to £2,000 per dwelling.

- M4 (2) allowance, equivalent to 25% of the total dwelling (i.e. 75) at a rate equivalent to £2,000 per dwelling.
- Marketing 1% on revenue.
- Developer profit 10% on cost.
- Benchmark Land Value £2,100,000 per gross Ha.

8.7.4 Our base appraisal testing, as outlined above, returns a residual land value of £313,661. This is below the benchmark land value of £840,000 and is therefore shown to be unviable.

8.7.5 We have subsequently re-run the appraisal model without any affordable housing and the residual land value increases to £1,348,261. This is therefore comfortably above the benchmark land value of £840,000, so can be regarded as being viable.

8.7.6 As a further iteration, we have also run the appraisal based on smaller flat sizes (which are either at the lower end of the NDSS compliant sizes or are not considered to be NDSS compliant).

8.7.7 Our first iteration is based on an average apartment size of 50 sq m, which is considered to be towards the lower end of the NDSS compliance. Please note, as flats reduce in size, for reasons of quantum there is a slight increase in the rent that can be achieved when expressed as a 'rate per sq m'. We have subsequently factored this into our testing. If affordable housing is included, the scheme generates a residual land value of £471,823. This below the benchmark land value, so is regarded as being unviable. If the affordable housing is removed, the residual land value increases to £1,330,229, which is at a viable level.

8.7.8 Our second iteration is based on an average apartment size of 40 sq m, which is considered to be outside of the NDSS compliance. If affordable housing is included, the scheme generates a residual land value of £503,713. This below the benchmark

land value, so is regarded as being unviable. If the affordable housing is removed, the residual land value increases to £1,199,725, which is at a viable level.

8.7.9 Please see Appendix 19 for a summary of the above results. The testing does demonstrate that a requirement to meet NDSS does not alter whether a scheme is viable or not, and thus the cumulative policy costs tested would not ‘undermine the deliverability of the plan’ (NPPF, July 2018) (para. 34).

8.8 Specific Site Testing

8.8.4 In addition to undertaking appraisal testing based on typologies, as supplementary evidence we have also undertaken site specific viability testing (based on sites identified through the allocations process). This is consistent with the PPG as published in July 2018, which states that “Plan makers can use site typologies to determine viability at the plan making stage. Assessment of samples of sites may be helpful to support evidence”. In other words, a base approach reliant on typologies is acceptable, but it may be helpful to apply the testing to real sites.

8.8.5 It is considered appropriate to consider site allocations for the purposes of the site-specific viability testing.

8.8.6 Please note, again in line with the recent PPG publication, it is not considered necessary to test all site allocations for the purposes of identifying additional evidence. Instead, it is considered appropriate to look at a sample of the site allocations, which are deemed to cover a variety of site types, locations, sizes etc for that particular market area.

8.8.7 In our site allocation testing we have therefore appraised a sample which considers the following criteria, with the aim of testing as broad a spectrum as possible of the likely sites that would potentially come forward:

- At least one site in each of the value banded areas (i.e. low, low-mid, mid, high-mid and mid).
- For each value banding area, we have looked to identify at least one site which is close to 15, 50 and 100 dwellings (if possible).
- Whether a site is in an urban / suburban location or whether it is classed as being non-urban (again, if possible).
- Whether a site is brownfield (i.e. it was previously developed) or greenfield (i.e. it is previously undeveloped), if possible.

8.8.8 Adopting the methodology as set out above, we have identified the following sites from the site allocations for the purposes of the additional viability testing (please note some non-urban site allocations from the adopted joint CSUCP plan are also included to illustrate viability with local plan costs (MSGP/DAP):

Table 8.23 – Site allocations identified for viability testing

Address	Value Area	Authority	Allocation ref	Type	Location	Total Dwellings	Gross (Ha)
Springs Health Club	High	Gateshead	10.86	Building in situ	Urban	22	0.37
Sanderson Hospital	High	Newcastle	3032	Former hospital	Urban	58	1.33
Northside - Cell C	High	Gateshead	10.66	Greenfield	Urban	132	5.32
Axwell Hall	High-mid	Gateshead	10.12	Conversion	Non-urban	17	0.63
Winlaton Care Village	High-mid	Gateshead	10.108	Brownfield	Non-urban	33	3.94
Part of Dunston Hill Hospital	High-mid	Gateshead	10.47	Former hospital	Non-urban	38	1.39
Hookergate School	High-mid	Gateshead	10.11	Former school	Non-urban	63	2.30
Upper Callerton	High-mid	Newcastle	5143	Greenfield	Non-urban	1200	76.5
Former Victoria Institute	Mid	Gateshead	10.20	Building in situ	Urban	6	0.20
The Vigo	Mid	Gateshead	10.1	Brownfield	Urban	10	0.20
Site of Children's Home	Mid	Gateshead	10.24	Building in situ	Urban	13	0.50
Walkergate Hospital	Mid	Newcastle	1009	Former hospital	Urban	40	2.99
Acacia Rd	Mid	Gateshead	10.5	Greenfield	Urban	52	1.14
Heaton Down Yard	Mid	Newcastle	4654	Former depot	Urban	150	4.2
Bleach Green	Mid	Gateshead	10.6		Urban	184	4.84
Newbiggin Hall	Mid	Newcastle	4828	Greenfield	Non-urban	230	15.16
40 Johnson St	Low-mid	Gateshead	10.42	Greenfield	Urban	3	0.017
Site of Deckham Hotel	Low-mid	Gateshead	10.32	Greenfield	Urban	6	0.20
Hallow Drive	Low-mid	Newcastle	5832	Greenfield	Urban	14	0.32
The Hall, Sunderland Road	Low-mid	Gateshead	10.55	Conversion	Urban	16	0.11
Wrekenton Multi-Purpose Centre	Low-mid	Gateshead	10.60	Building in situ	Urban	45	0.22
Site of 22-140 Roundhill Avenue	Low-mid	Newcastle	2572	PDL Cleared	Urban	48	1.11
Lanchester Wines Depot South	Low-mid	Gateshead		Car park	Urban	54	1.20
Clasper Village	Low-mid	Gateshead	10.34		Urban	181	6.80
Scotswood Phase 2	Low-mid	Newcastle	3106	PDL Cleared	Urban	1422	33.93
Bar 3T, Swalwell	Low	Gateshead	10.102	Building in situ	Urban	6	0.04
Central Walker Phase 3	Low	Newcastle	5996	Greenfield	Urban	14	0.42
Land at Losh Terrace	Low	Newcastle	4427	Greenfield	Urban	52	1.75
Land at Loadman Street	Low	Newcastle	1515/5897	PDL Cleared	Urban	174	5.98

8.8.9 As shown above, sites have been identified from each of the 5 value bands (low, low-mid, mid, high-mid and high). Sites have also been identified to provide a mix of greenfield and brownfield sites, as well as urban / suburban and non-urban.

8.8.10 With regards to size of sites, we have looked at sites which are broadly in line with the typology testing (i.e. 15, 50 and 100 dwellings). In addition, as stated above in section 6.6, we have also tested larger scale sites, significantly above 100 dwellings. At this increased scale an individual appraisal is deemed necessary to ensure the testing is as robust as possible. These sites include Scotswood Phase 2 (1,400 dwellings), Upper Callerton (1,200 dwellings) and Newbiggin Hall (230 dwellings).

8.8.11 In terms of the viability testing approach, we have used the same methodology as adopted in the typology testing (i.e. the residual method and the separate identification of a benchmark land value for each site). For consistency, we have looked to broadly apply the same appraisal inputs adopted in the typology testing,

consistent to the size and nature of the site. By way of a brief summary of the key appraisal inputs, these include the following:

- Gross to net ratios to broadly meet the typology testing allowances.
- Affordable housing at circa 15% (unless not applicable due to the site providing below 15 dwellings).
- Dwelling sizes to meet the NDSS averages, as per the approach adopted for the typology testing.
- Sales values / affordable housing transfer values to match the averages used in each value band area.
- Build costs in line with the BCIS (adjusted between the lower quartile rate and median rate dependent on the nature of the scheme or adjusted to match the low cost developer model if appropriate).
- Contingency, externals and professional fees at 25% of the basic construction costs, in line with the typology testing, adjusted to meet the low cost developer model where appropriate.
- Abnormals spot allowance equivalent to £150,000 per net Ha.
- S106 contributions at an average of £2,000 per dwelling (the lower allowance has been used for the purposes of initial testing).
- CIL at the prevalent rates, where applicable.
- Marketing costs ranging from 1.5% to 3%, dependent on the size of the scheme.
- Profit at 20% on revenue for the market value units, reduced to 6% for the affordable.

- Benchmark Land Values ('BLV') in line with the typology testing (ranging from £200,000 to £2.1million per Ha).

8.8.12 As per the typology testing, the appraisals have been run using ARGUS developer, a bespoke cashflow model designed for undertaking residual appraisals. Having run these appraisals, the resultant residual land value is then compared to the benchmark land value. If the former is higher than the BLV the scheme is deemed to be viable. If it is below the BLV, the scheme is shown to be unviable.

8.8.13 The results of the testing are shown below:

Table 8.24 – Site allocations viability testing results

Address	Value Area	Authority	Allocation ref	Total Dwellings	% of BLV	Viability?
Springs Health Club	High	Gateshead	10.86	22	117.47%	VIABLE
Sanderson Hospital	High	Newcastle	3032	58	58.73%	VIABLE
Northside - Cell C	High	Gateshead	10.66	132	2.91%	VIABLE
Axwell Hall	High-mid	Gateshead	10.12	17	-12.21%	UNVIABLE
Winlaton Care Village	High-mid	Gateshead	10.108	33	-23.01%	UNVIABLE
Part of Dunston Hill Hospital	High-mid	Gateshead	10.47	38	154.90%	VIABLE
Hookergate School	High-mid	Gateshead	10.11	63	199.40%	VIABLE
Upper Callerton	High-mid	Newcastle	5143	1200	108.17%	VIABLE
Former Victoria Institute	Mid	Gateshead	10.20	6	118.14%	VIABLE
The Vigo	Mid	Gateshead	10.1	10	77.93%	VIABLE
Site of Children's Home	Mid	Gateshead	10.24	13	-13.32%	UNVIABLE
Walkergate Hospital	Mid	Newcastle	1009	40	9.81%	VIABLE
Acacia Rd	Mid	Gateshead	10.5	52	39.77%	VIABLE
Heaton Down Yard	Mid	Newcastle	4654	150	30.75%	VIABLE
Bleach Green	Mid	Gateshead	10.6	184	16.44%	VIABLE
Newbiggin Hall	Mid	Newcastle	4828	230	55.17%	VIABLE
40 Johnson St	Low-mid	Gateshead	10.42	3	333.28%	VIABLE
Site of Deckham Hotel	Low-mid	Gateshead	10.32	6	-49.09%	UNVIABLE
Hallow Drive	Low-mid	Newcastle	5832	14	-22.63%	UNVIABLE
The Hall, Sunderland Road	Low-mid	Gateshead	10.55	16	79.59%	VIABLE
Wrekenton Multi-Purpose Centre	Low-mid	Gateshead	10.60	45	303.65%	VIABLE
Site of 22-140 Roundhill Avenue	Low-mid	Newcastle	2572	48	82.91%	VIABLE
Lanchester Wines Depot South	Low-mid	Gateshead		54	71.75%	VIABLE
Clasper Village	Low-mid	Gateshead	10.34	181	0.44%	VIABLE
Scotswood Phase 2	Low-mid	Newcastle	3106	1422	19.91%	VIABLE
Bar 3T, Swalwell	Low	Gateshead	10.102	6	-9.11%	UNVIABLE
Central Walker Phase 3	Low	Newcastle	5996	14	-145.33%	UNVIABLE
Land at Losh Terrace	Low	Newcastle	4427	52	24.09%	VIABLE
Land at Loadman Street	Low	Newcastle	1515/5897	174	40.37%	VIABLE

8.8.14 Of the 29 sites tested, 22 return a viable outcome (when the low cost developer model is applied, where appropriate). This includes sites located within each of the 5 value bands.

8.8.15 In terms of the 7 sites which show an unviable outcome, we would provide the additional comments:

- Axwell Hall involves the conversion of an existing building. The build costs have been increased to reflect the nature of the proposed conversion works, which has had a negative impact on the viability outcome.

- Winlaton Care Village is a large site with a low density (as proposed in the allocation), being just over 10 dwellings per Ha (this size site would normally provide in excess of 30 dwellings per Ha). This has a negative impact on the viability.
- The only site shown to be unviable in the mid value area (site of the Children's Home) is only marginally unviable.
- The 3 remaining sites showing an unviable outcome (Hallow Drive, Bar 3T and Central Walker) are all small sites located in low or low-mid value areas where viability pressure is naturally higher. These sites are not of a sufficient size to attract a low cost developer (therefore these sites cannot benefit from the build cost savings that a low cost developer can make).
- Furthermore, we are advised that Hallow Drive and Central Walker are sites in the ownership of Newcastle City Council with delivery mechanisms in place.

8.8.16 However, it is stressed that the above initial testing does not include the costs of meeting the M4 (2) standard. We have subsequently re-run each appraisal, factoring in the additional costs associated with meeting this. Please note, for the purposes of the testing (and in light of the conclusions reached following the typology testing), we have assumed a policy requirement for 25% of all dwellings to meet the M4 (2) standard. Furthermore, we have not included M4 (3).

Table 8.25 – Site allocations viability testing results (with M4 (2) applied at 25%)

Address	Value Area	Authority	Allocation ref	Total Dwellings	M4 (2) Cost	Adjusted % of BLV	Adjusted outcome
Springs Health Club	High	Gateshead	10.86	22	£ 11,000	116.05%	VIABLE
Sanderson Hospital	High	Newcastle	3032	58	£ 29,000	57.58%	VIABLE
Northside - Cell C	High	Gateshead	10.66	132	£ 66,000	2.12%	VIABLE
Axwell Hall	High-mid	Gateshead	10.12	17	£ 8,500	-15.33%	UNVIABLE
Winlaton Care Village	High-mid	Gateshead	10.108	33	£ 16,500	-24.17%	UNVIABLE
Part of Dunston Hill Hospital	High-mid	Gateshead	10.47	38	£ 19,000	151.74%	VIABLE
Hookergate School	High-mid	Gateshead	10.11	63	£ 31,500	195.59%	VIABLE
Upper Callerton	High-mid	Newcastle	5143	1200	£ 600,000	105.45%	VIABLE
Former Victoria Institute	Mid	Gateshead	10.20	6	£ 3,000	114.57%	VIABLE
The Vigo	Mid	Gateshead	10.1	10	£ 5,000	75.15%	VIABLE
Site of Children's Home	Mid	Gateshead	10.24	13	£ 6,500	-14.92%	UNVIABLE
Walkergate Hospital	Mid	Newcastle	1009	40	£ 20,000	7.59%	VIABLE
Acacia Rd	Mid	Gateshead	10.5	52	£ 26,000	36.96%	VIABLE
Heaton Down Yard	Mid	Newcastle	4654	150	£ 75,000	27.97%	VIABLE
Bleach Green	Mid	Gateshead	10.6	184	£ 92,000	13.63%	VIABLE
Newbiggin Hall	Mid	Newcastle	4828	230	£ 115,000	52.13%	VIABLE
40 Johnson St	Low-mid	Gateshead	10.42	3	£ 1,500	315.64%	VIABLE
Site of Deckham Hotel	Low-mid	Gateshead	10.32	6	£ 3,000	-52.09%	UNVIABLE
Hallow Drive	Low-mid	Newcastle	5832	14	£ 7,000	-27.00%	UNVIABLE
The Hall, Sunderland Road	Low-mid	Gateshead	10.55	16	£ 8,000	65.04%	VIABLE
Wrekenton Multi-Purpose Centre	Low-mid	Gateshead	10.60	45	£ 22,500	283.19%	VIABLE
Site of 22-140 Roundhill Avenue	Low-mid	Newcastle	2572	48	£ 24,000	78.07%	VIABLE
Lanchester Wines Depot South	Low-mid	Gateshead		54	£ 27,000	66.75%	VIABLE
Clasper Village	Low-mid	Gateshead	10.34	181	£ 90,500	-3.11%	UNVIABLE
Scotswood Phase 2	Low-mid	Newcastle	3106	1422	£ 711,000	15.17%	VIABLE
Bar 3T, Swalwell	Low	Gateshead	10.102	6	£ 3,000	-46.61%	UNVIABLE
Central Walker Phase 3	Low	Newcastle	5996	14	£ 7,000	-154.59%	UNVIABLE
Land at Losh Terrace	Low	Newcastle	4427	52	£ 26,000	15.86%	VIABLE
Land at Loadman Street	Low	Newcastle	1515/5897	174	£ 87,000	30.66%	VIABLE

8.8.17 As shown above, for the majority of the schemes, the inclusion of the M4 (2) standard does not change the viability outcome. In other words, this suggests that the introduction of the M4 (2) standard to 25% of the dwellings would not change whether a scheme is viable or not. The only exception is Clasper Village, however (as discussed below in Chapter 10) Gateshead Council are currently progressing a strategy of clearing this site ready for developers, which will improve viability and the chances of deliverability.

8.8.18 It is stressed that the above site-specific analysis still represents 'high-level' viability testing and is not intended to provide a definitive view on the viability of each scheme (as the full facts of each site cannot be known at this stage). However, this does provide an additional insight into how the emerging policies potentially impact when applied to specific sites. In this respect the above is considered to compliment the typology testing.

- 8.8.19 Chapter 10 of the report sets out other delivery evidence including the mechanisms and interventions the Councils are deploying in the lower viability areas where land ownership of development sites is characteristically high.
- 8.8.20 Acknowledging these limitations, the results however do show that most sites return a viable outcome, even with the application of the NDSS and the other emerging policies. This supports the view that the proposed policies as set out in this report would not serve to undermine scheme delivery.

9 Non-residential testing

9.7 Scheme typologies

9.7.4 In previous testing the Councils have adopted the following non-residential site typologies:

Table 9.1 – Non-residential site typologies

COMMERCIAL SCHEME TYPES					
DEFINITION AND USE CLASS	EXAMPLE SCHEME TYPE	GIA (SQ.M)	SITE COVERAGE (PLOT RATIO)	SITE SIZE (HA)	ROOMS IF APP.
B1 (A) OFFICES - NEIGHBOURHOOD/OUT OF TOWN	OFFICES	2,000	80%	0.25	
B1 (A) OFFICES - NEWCASTL CENTRAL AREA	OFFICES	4,000	400%	0.10	
OUT OF CENTRE HOTEL	HOTEL NOT CENTRAL AREA	3,600	72%	0.50	120
CITY CENTRE HOTEL	HOTEL - NOT NEWCASTLE CENTRAL AREA	8,000	200%	0.40	180
A1,A2,A3,A4,A5 - SMALL RETAIL	CONVENIENCE STORE	279	90%	0.03	
SUPERMARKET- DISCOUNT	SUPERMARKET	1,510	20%	0.76	
SUPERMARKET	SUPERMARKET	5,000	25%	2.00	
A1- RETAIL WAREHOUSE	RETAIL WAREHOUSE	1,000	42%	0.30	
SHARED ACCOMMODATION	STUDENT	16,266	400%	0.41	530
, LIGHT INDUSTRIAL B2, B8	INDUSTRIAL WAREHOUSE	3,000	40%	0.75	

9.7.5 Having been accepted through a previous examination and in relation to the nature of the local market the above are considered to be appropriate site typologies for

non-residential schemes (and reflective of the likely projects likely to come forward).
 We therefore see no reason for amendment.

9.8 Revenue

9.8.4 The Councils have previously adopted the following revenue assumptions in the modelling across the identified viability profile areas (low, medium, high). Please see Appendix 1b for the Gateshead and Newcastle commercial viability profile maps.

Table 9.2 – Non-residential Councils revenue allowances

RENTAL AND CAPITAL VALUES AND YIELDS FOR COMMERCIAL SCHEMES					
Scheme Type		Rental Value £/m2 and Yield %			
		Low	Med	High	Newcastle Central Area
1000m2 GIA retail warehouse		110	145	160	
Yield		6.50%	6.50%	6.50%	
279m2 net trading area & small scale A1-A5 units		60	88	237	645
Yield		8.50%	8.50%	7.50%	7.50%
5000m2 GIA supermarket		150	195	215	215
Yield		6.75%	6.75%	6.75%	6.75%
1510m2 gross (1125 net) convenience (discount)		130	130	130	130
Yield		6.75%	6.75%	6.75%	6.75%
Offices		86	108	161	226
Yield		8.50%	8.50%	7.50%	7.00%
B2 Industrial		35	45	60	
Yield		10.00%	8.00%	7.50%	
Hotels		65,000	65,000	90,000	145,000
Capital Value per Room					
Student Housing		2856	3672	5916	5916
Yield		8.50%	8.50%	7.50%	7.50%

9.8.5 We have researched the local market, identifying rent and yield evidence from CoStar SUITE database. We would comment on each sector as follows:

Retail warehouse – for modern retail warehouse units, leasehold transactions have been identified between Dec 15 and Jul 17. The range of headline rental values identified equates to £131 to £172 per sq m. This broadly supports the allowances previously adopted by the Councils, therefore no adjustment is required. There is no identified evidence regarding yields, therefore no evidence to justify any amendment.

Retail A1 to A5 – for modern retail units, leasehold transactions have been identified from the last 2 years. The range of headline rental values equates to £83 to £264 per sq m. Again, this broadly supports the allowances previously adopted by the Councils, therefore no adjustment is required. Regarding yields, since Jan 2016 the yield range identified for retail acquisitions is 4.67% to 13%, with an average of 7.57% across the sample. It is stressed that the yield ultimately depends on the covenant strength of the tenant, therefore will differ significantly between prime locations (which attract strong national tenants) and more secondary locations which will attract smaller businesses. However, as an average the evidence identified supports the Councils suggested range of 7.5% to 8.5%.

Supermarkets – evidence is limited. A Sainsbury's Local is currently being marketed at an asking yield of 6.47%. Furthermore, a modern Waitrose unit in Jesmond sold in July 2017 for 4.67% (with a passing rent of circa £195 per sq m). We therefore consider an uplift in rent to £150 per sq m to be appropriate, plus a reduced yield of 6%. As a side, we would comment that in the current climate the supermarket development market is being driven by small, generally discount operators (such as Aldi and Lidl). Development of large superstores has significantly reduced in recent years and whilst the market may return in the future, the short-term development market is likely to continue to be underpinned by discount operators.

Offices – for modern office buildings, leasehold transactions have been identified from the last 2 years. The range of headline rental values identified equates to £78 to £290 per sq m, with an average of £158 per sq m (and the top end of the range reflecting new build Grade A office space in prime city centre locations). Again, this broadly supports the allowances previously adopted by the Councils. Regarding yields, since Jan 2016 the yield range identified for retail acquisitions is 4.75% to 12.57%, with an average of 7.81% across the sample. We consider 6.5% to be reasonable for Newcastle Central Area, increasing to 7.5% to 8.5% for the other typologies.

Industrial – for modern industrial buildings, leasehold transactions have been identified from the last 3 years. The range of headline rental values identified equates to £51 to £92 per sq m, with an average of £68 per sq m. The Councils allowances range from £35 to £60 per sq m, therefore slightly below the range identified. **We would therefore recommend an increase in the allowances to £40 per sq m in low value areas, £55 for per sq m for medium and £70 per sq m for high value.** For yields, evidence ranges from 4% to 12.4%, with an average of 7.35%. The Councils allowances of 7.5% to 10% is therefore considered to be reasonable.

Hotels – we have identified a number of hotel sales during the last 2 years, mainly in and around Newcastle city centre. The capital price paid on a ‘per room’ basis ranges from £23,333 to £87,736. The average across the sample is £69,797. This therefore broadly supports the Councils allowances (acknowledging that in certain prime locations within Newcastle city centre the price is likely to increase).

Student housing – no evidence was identified to justify a change to the Low and Medium value typologies. For the High and Newcastle Central Area we noted that a higher rental allowance had been included in more recent viability testing undertaken by the Councils (rent of £6,079 per flat per annum). We subsequently adjusted our testing to match this rate.

9.8.6 In the current market, it is typical for landlords to attract tenants through rental incentives, such as rent free periods. In recognition of this the Councils' modelling allows the following rent free periods (where relevant):

Table 9.3 – Council allowances for rent free periods

	Months
Retail warehouse	9
Retail A1 to A5	12
Supermarket	15
Supermarket – discount	12
Offices	10
Industrial	10

9.8.7 The above are largely considered to be reasonable, however we would recommend a reduction for the supermarkets to 6 months.

9.9 Construction costs and build periods

9.9.4 The allowances are based on BCIS data. For all typologies (except the hotel typology in Newcastle Central area and student flats) the BCIS median has been utilised. For hotels in the Newcastle Central Area the upper quartile has been applied to reflect the high-rise nature of the building. Furthermore, we have applied a 10% uplift above the median for small retail in the city centre, reflecting the more difficult access required for undertake development. Generally, though, the BCIS is considered to be more reliable as a data set for non-residential development. For this reason, we consider it appropriate to favour the median rates for the majority of the site typologies.

9.10 Other non-residential development costs

9.10.4 The Councils' suggested allowances are summarised as follows:

Table 9.4 – Council allowances for general development costs

DEVELOPMENT COSTS - FEES, FINANCE & PROFIT - COMMERCIAL		
Item	Description	Units
Professional Fees	10%	of build costs including planning, building regs, insurances etc
Site Acquisition Fees	1.00%	of purchase price - Agents Fees
	0.75%	of purchase price - Legal Fees
	4%	of purchase Price - SDLT
Finance	6.50%	per annum
Finance Arrangement Fee	0.10%	of cost
Marketing Costs	1.00%	sales fees where applicable
	0.00%	advertising fees (percentage of annual income)
	10%	letting fees (percentage of annual income)
Legals on Lettings	5.00%	percentage of annual income
Legals on Sale	0.25%	percentage GDV
Developer Profit	20%	on costs (excluding shared accommodation & Offices at 15%)
s.106	0	Direct site works cannot be estimated
EPC/m2	£ 0.50	on build costs
Abnormals Allowance	5%	on build costs
City Centre Abnormals Allowance	5%	on build costs
Contingency	5%	on build costs
Externals	11.25%	on build costs

9.10.5 The majority of the above are considered to be acceptable for the purposes of the modelling, with the following exceptions:

Externals – the Councils assumption is based on a single rate applied to all sites. However, in reality the level of external costs will fluctuate significantly depending on the site in question. For example, a city centre hotel site is likely to have limited associated external costs, whilst a retail warehouse scheme with on-site parking will have significantly higher external costs. Having considered other viability studies undertaken by regional local authorities, we would suggest the following allowances:

Retail warehouse	-	15%
Retail A1 to A5	-	10%
Supermarkets	-	15%
Offices (in town)	-	5%

Offices (out of town)	-	15%
Industrial	-	10%
Hotels	-	5%
Student accommodation	-	5%

Abnormals – as with residential development, applying a percentage approach financially penalises some schemes where the construction costs happen to be higher. For example, using the Councils modelling a student accommodation or hotel scheme could both be developed on the same type of land. However, using a 5% abnormal cost allowance the hotel scheme is likely to have lower abnormal cost than the student scheme (because the latter has a higher construction rate in the modelling). As with the residential typologies, we would suggest using a fixed rate of £150,000 per net Ha (plus an additional £150,000 per net Ha for sites in the Newcastle Central Area), which avoids arbitrary differences in the level of abnormals from site to site.

Profit – profit will fluctuate dependent on the nature of investment. For example, a pre-let scheme (where the tenant moves in immediately upon completion of the construction works) carries a significantly lower risk that a speculatively build project where the occupier has to be identified after the construction works have commenced. For pre-let schemes, in our experience profit margins tend to be sub 15% on cost. For speculative schemes the profit is adjusted to typically above 15% on cost. For the purposes of this modelling we therefore consider a single rate of 20% on cost to be overly cautious. We would recommend undertaking testing at 15% on cost.

9.11 Non-residential Benchmark Land Value (“BLV”)

9.11.4 The Councils allowances as taken from the recent CIL assessments are as follows (and have a correlation with the residential BLV assumptions):

Urban / Suburban

High	£2.1million per net Ha
Medium	£1million per net Ha
Low	£200,000 per net Ha

Non-urban

High	£530,000 per net Ha
High mid	£420,000 per net Ha
Mid	£360,000 per net Ha

9.11.5 We refer to the analysis undertaken in the residential testing. The same approach and land transactions analysis applies to non-residential sites.

9.11.6 In this respect, the values are considered to be broadly reasonable. **The only adjustment we would recommend, in line with the residential site analysis, is that the urban / suburban medium value figure is adjusted down to £900,000 per Ha.**

9.12 Appraisal results

9.12.4 See Appendix 20. The following typologies returned a viable outcome:

- Retail warehouse (in low, medium and high value areas).
- Supermarket (in low, medium and high value areas).
- Retail (in high value area only).
- Hotel (in high value area only).
- Student accommodation (in Newcastle Central Area / high value area only)

9.12.5 All of the other typologies (including industrial and office schemes) returned an unviable outcome.

- 9.12.6 The type of employment development accommodated on a given site can vary, making it difficult to provide a truly accurate estimate of viability. The use of commercial value zones and viability testing of notional schemes provides a broad indication of the viability of generic commercial development in different locations throughout Gateshead and Newcastle. This approach is considered proportionate given the uncertainty over the type of development that could take place on sites allocated for employment uses. The uncertainty regarding potential range of uses, and density of development, and the potential mitigating needed to address the impacts associated with the proposed development, in addition to opportunities for public sector intervention to offset some costs demonstrate that a detailed, site or scheme-specific approach to viability is not appropriate.
- 9.12.7 Despite the lack of viability shown development of employment land continues to take place in Gateshead, Newcastle and the wider region, often supported by local, regional, and national government initiatives. Furthermore, development of industrial and office floorspace is not always influenced solely by the financial viability of the development itself which is often the case in the house building sector. For example, it can be the case that a site will be developed to facilitate the aims and function of a given business and while the development may represent a cost to a business, it enables the desired economic activity to take place.
- 9.12.8 In recent years employment land has continued to be developed across several locations including Team Valley, Follingsby, Newcastle Helix (formerly Science Central), Neptune Energy Park and Walker Riverside.
- 9.12.9 Clearly while it is appropriate to test the viability of employment land development through notional schemes, the findings of the report should be viewed in the context of wider trends and features of the employment land market, and in particular the need to ensure that the Gateshead and Newcastle are well positioned to encourage economic growth and development across a range of sectors and locations, in line with national and local strategies for economic growth.

10 Delivery Interventions

10.1 Background

10.7.4 Securing investment to develop the local authority area is fundamental to both Newcastle City Council and Gateshead Council. Paragraph 10.13 of the Core Strategy and Urban Core Plan reflects the presumption that brownfield sites in the urban area should be prioritised. This is critical to principles of sustainability, of making the most of our neighbourhood and infrastructure assets within the existing built up area, but also to minimise the need to alter the Green Belt boundary. The North of England continues to experience difficulties in delivery of commercial and residential development. The Core Strategy and Urban Core Plan whilst aspirational, recognises this challenging market. Thus, the Plan did not propose significant policy costs but rather focussed on facilitating delivery with associated enabling/ essential infrastructure alongside affordable housing requirements.

10.7.5 Ensuring high quality sustainable development which meets the needs of residents now and moving forward is a priority for both Councils, and this principle is reflected in the policies of each authority's draft local plan. The policy requirements of the DAP and MSGP are more detailed and delivery focused than those of the CSUCP. They therefore do impose a greater burden of cost on development, however again the plans do not propose policy costs which are so significant as to undermine the overall viability of development or the deliverability of the plan (NPPF para 34).

10.2 Residential Development

10.2.1 Making the most of underused or vacant sites in the Low and Low Mid profile areas and continuing to deliver dwellings to help meet the housing targets is challenging, particularly without the levels of public subsidy that have previously been available through the Housing Market Renewal (HMR) areas and Homes England. However, Gateshead and Newcastle Councils have a significant land holdings and track record of

interventions in the market, as noted by the CSUCP Inspector (para.41, February 2014):

*Objectors had two main areas of concern about the SHLAAs. The first is the deliverability of sites in low and low-mid areas of demand, where viability is a significant issue. **However, many of these sites are in public ownership and the Councils have demonstrated a strong commitment to obtaining finance and bringing them forward. There is evidence of successful joint venture partnerships with the private sector and, given the Councils' willingness not to always require the best financial reward, there is a reasonable prospect that most of these sites will deliver.***

10.2.2 Gateshead and Newcastle Councils worked together as part of the City Deal programme, aligned to the Accelerated Development Zone /Tax Incremental Funding awarded to Gateshead and Newcastle in 2013. Through the NewcastleGateshead Housing Advisory Group a City Deal Housing Investment Plan was prepared – a commitment between the two authorities and the HCA as part of the transition from the Housing Market Renewal programme. The plan particularly applied to potential investment by the HCA and the LEP, transport and economic infrastructure plans and commercial market opportunities. Its aim was to attract other public and private investment, and to sequence activity so sites do not unhelpfully compete against each other.

10.3 Newcastle

10.3.1 In Newcastle, the Council has a range of housing projects underway and in the planning stages. In the west end area of Scotswood, the New Tyne West Development Company has started on site to build 1,800 new homes working with two house builders (Barratts and Keepmoat). YHN are managing investment of the Housing Revenue Account across Walker in collaboration with the council's Fairer Housing Unit. A Strategic Partnering Agreement with Places for People has delivered 107 homes at Riversgate in Walker, and the DAP continues to promote redevelopment of the area by allocating a number of sites there for housing. The Council's Fairer Housing Unit has been granted £525,000 from the Public Land Release Fund, and funding for an additional 75 homes through the Continuous Market Engagement aspect of the Shared Ownership and Affordable Homes

Programme was also approved earlier this year. The Council has a track record of facilitating delivery of homes in the lower value areas through making the most use of local authority owned land to stimulate development.

10.3.2 Through the Accelerated Construction Programme, Homes England have offered funding to help deliver Loadman Street and the Land at Pottery Bank. Both of these sites are proposed for allocation through the DAP. This funding is intended to help accelerate delivery by supporting the Council to address site constraints prior to selling on the land. The funding must be spent by March 2021. Funding of approximately £2m for Loadman Street will contribute to the site preparation works and retaining structures required to enable the proposed scheme to progress, with works likely to start on site this financial year. An additional £1m for the Land at Pottery Bank has been offered, with the detail of works to be carried out being discussed.

10.3.3 In the Low Mid and Low residential profile areas where sites are not always viable the Council has extensive land ownership. The HELAA database includes urban sites in Newcastle and Table 10.2 includes sites that are Council owned and have greater likelihood of delivery despite not meeting the benchmark land value. Historically the council has a track record of site assembly following past demolition of low demand Council housing stock.

10.3.4 Since the adoption of the CSUCP, the Council continues to implement plans to deliver 19,000 homes over the plan period 2010-30. A net total of 1,102 new homes (gross) were built 2017/18 – the highest output in over three decades. 385 of these were affordable. The Council is working to ensure that this pace of delivery continues across a range of housing products and tenures.

10.3.5 In 2016/17 527 general needs and affordable homes were delivered on City Council owned sites, or benefitted from gap funding facilitated by the Council. The current Council Housing Land and Asset Programme and delivery mechanisms include:

- Working with partners such as the New Tyne West Development Company to deliver housing which is supported by investment in local education, neighbourhood centres, and green corridors
- Maintaining a long term relationship with the Homes England to secure grant, gap, and equity funding for affordable housing and those sites that have abnormal costs or difficult infrastructure challenges
- Setting up new models of delivery to reduce the reliance on Council resources to deliver a range of housing for older and disabled people – procurement of new, long term development and investment partners
- Ensuring that the Housing Revenue Account remains financially robust to fund new homes that meet the changing needs of current and future tenants

10.3.6 Between 2010 and 2018, 30% of all new housing delivered was affordable. The Council’s Fairer Housing Unit proposes to facilitate delivery of new homes to at least M4 (2) standard for an estimated 676 dwellings between 2018 to 2021, in advance of a local plan requirement in the DAP, See Tables 10.1 and 10.2. This demonstrates the Council’s ability to deliver affordable housing and meet plan costs despite the financial challenge of doing so in lower viability areas.

Table 10.1: – Newcastle Facilitated Completions as a Proportion of Total Completions, 2014-18

	2014-15	2015-16	2016-17	2017-18	Total	%
Open Market Housing	517	793	753	717	2780	
Affordable Housing	289	134	325	385	1133	
Council facilitated Open Market Housing	200	324	408	333	1265	46%
Council facilitated Affordable Housing	150	96	241	331	818	68%

Table 10.2: Forecast Delivery of FHU facilitated sites, 2019-21

Site	Ward	2018/19	2019/20	2020/21	TOTAL	Accessible and Adaptable (CAT2) or higher
Yewcroft Avenue, Benwell	Benwell & Scotswood	42			42	Y
Dunblane Crescent, West Denton	Denton & Westerhope	22			22	Y
Etal Lane	Blakelaw	10			10	Y
Dorcas Avenue	Benwell & Scotswood	9			9	Y
Sheriff Leas	Blakelaw	18			18	Y
Burnfoot Way	Kenton	8			8	Y
Broughton Close Phase 2, Newbiggin Hall	Blakelaw	1			1	Y
Belvadere House, Byker	Walkergate		23		23	Y
Clumber Street	Elswick		20		20	Y
Avison Street / Douglas Terrace	Elswick		15		15	Y
Westerhope Day Centre	Blakelaw		18		18	Y
Conewood House, Fawdon	Denton & Westerhope		21		21	Y
Parkway Phase 1	Denton & Westerhope		61		61	Y
Hallow Drive, Throckley	Callerton & Throckley		8		8	Y
Ridgewood Gardens	Dene & South Gosforth		6		6	Y
Eastgarth, Newbiggin Hall	Blakelaw		7		7	Y
Wansford Avenue	Blakelaw		15		15	Y
Chapel Park Middle School	Denton & Westerhope		4		4	Y
Coniston Court	Blakelaw		34		34	Y
Hartburn Walk	Kenton		8		8	Y
Site of St Anthony's House	Walker		14		14	Y
Site of Red Hut	Blakelaw		24		24	Y
Losh Terrace	Walker			51	51	Y
Reestones Place	Kenton			18	18	Y

Scotswood Development Area Phase 2	Benwell & Scotswood			54	54	Y
Somerset Place	Elswick			20	20	Y
Thornley Road	Denton & Westerhope		11		11	Y
Church Walk	Walker			12	12	Y
Dunblane Crescent	Denton & Westerhope	4			4	Y
Site of Belmont Street Church	Walker		15		15	Y
Hartburn Walk	Kenton		7		7	Y
Felton Avenue	Fawdon & West Gosforth		4		4	Y
Brunel Terrace	Elswick			32	32	Y
Wansfell Avenue	Kenton			12	12	Y
Waverley Crescent	Lemington			16	16	Y
Sceptre Street	Elswick			12	12	Y
Park Road, Newburn	Callerton & Throckley			20	20	Y
TOTAL		114	315	247	676	

10.3.8 Housing Infrastructure Fund: In September 2017 Government set up a £2.3Billion fund to unlock 100,000 new homes. The purpose of the fund was to provide the final or missing piece of infrastructure funding to unlock existing sites. Three of the Council's bids were successful, with an initial allocation of grant funding (subject to further approvals) of:

- £1,250,000 for Ouseburn Mouth
- £9,656,714 for the Outer West
- £5,000,000 for public realm in the residential area of Science Central

10.3.9 The Council will continue to lobby and bid again if there is any opportunity for second round bidding for the remaining two priorities – a further Ouseburn site and the area extending beyond Central Station into Forth Yards.

10.3.10 North of Tyne Combined Authority: The North of Tyne housing deal has the potential to boost housing growth in the Combined Authority area (CAA). A joint bid for Housing Infrastructure Forward funding is anticipated to increase the provision of new homes to 45,000 properties across the CAA – comprised of Newcastle, Northumberland, and

North Tyneside Councils - by 2032. The authorities have also committed to producing 2 HIF bids to further accelerate housing growth, and has established a Housing and Land Board to support the Mayoral Development Corporation following the Mayoral election in 2019. A key housing deal includes increasing provision of rural, older persons, and specialist and supported housing, as well as a range of market sale, affordable rent and shared ownership homes. The deal will also include a programme to bring empty homes back into use and a plan for improving the private rented sector. The CA is committed to increasing the use of public sector land to boost housing growth.

10.4 Gateshead

10.4.1 In Gateshead, the Council is signed up to a joint venture partnership with Home Group and Galliford Try. The award-winning partnership – called the Gateshead Regeneration Partnership (GRP) – plans to build around 2,400 new homes over the next 15-20 years. These will be on 19 sites across the borough in each of the value zones covering 70 hectares of land – including the majority of the Exemplar Neighbourhood site. The partnership uses the principle of harnessing the income generated in higher value areas to offset the costs of bringing forward sites in the lower value areas. It also means being less reliant on central government funding, leading to development of some important regeneration sites that will greatly improve the choice of homes available to people wanting to live in Gateshead. Planning consent has been granted for 114 more homes on three new sites, adding to the 309 completed, or approaching completion at Birtley (in the High value zone), and at Deckham and Bensham, both in the Low Mid zone.

10.4.2 Regeneration work is also a priority in Gateshead. Six redevelopment schemes are underway that will replace low demand or obsolete estates on Council owned land with around 1,070 modern family homes – of which at least 240 will be delivered by the GRP. Sites have been cleared or demolition is underway at the Chandless Estate, Brandling Estate and Clasper Village, providing vacant sites ready for a developer ready

to invest in our mid and low mid value areas, whilst the development of new homes is well advanced at Ravensworth Road and Bleach Green.

10.4.3 At Metrogreen, the intention is to produce an Area Action Plan to guide development. The aim is to identify public funding opportunities to deliver the strategic fluvial and surface water costs, leaving the private sector to deliver the site infrastructure requirements (e.g. remediation) and local contributions (e.g. green infrastructure, local road network). There is strong interest in the area from home builders, and the Council is already speaking to a number of external funding bodies to secure the necessary support.

10.4.4 The Council is committed to deliver new homes and continues to implement its plans to deliver 11,000 homes 2010-30 - a total of 419 new homes were built last year (net total of 289). The Council wants to increase the pace of delivery across a range of housing products and tenures, approving market housing that supports economic growth and meeting the need for affordable and other community based housing. The public land ownership rate is high in Gateshead's Low/Low Mid areas, and the Council is facilitating housing delivery across a range of sites as indicated in Fig XXX.

Table 10.3: Gateshead Facilitated Completions

Gateshead Facilitated Completions 2015-2018								
Ward	Site Name	Scheme Proposal	Current Status	Open Market	Affordable	Delivery	Complete	Facilitation
Saltwell	Adler close	Jewish community housing	Complete		12	12	15/16	Provided potential loan facility
Deckham	Avon street	GRP	Complete		16	16	15/16	GRP and council land
Birtley	Birtley JV site	GRP	Complete	30	6	36	15/16	GRP and council land
Dunston	Clavering Court	Keepmoat (Rocket site)	Complete		42	42	15/16	Council land Keepmoat/partnership
Ryton	The Lonnen	Keelman	Complete		14	14	15/16	Council land
Birtley	Birtley JV site	GRP	Complete	14	9	23	16/17	GRP and council land
Saltwell	Armstrong st	GRP	Complete	20	19	39	16/17	GRP and council land
Dunston	Clavering Court	Keepmoat (Rocket site)	Complete	1	4	5	16/17	GRP and council land
Teams	Victoria Road	Isos	Complete		10	10	16/17	Previous council land sold for affordable
Ryton	Runhead estate	Keelman	Complete		9	9	16/17	Previous council land sold for affordable
Ryton	Heddon Close	Keelman	Complete		6	6	16/17	Previous council land sold for affordable
Saltwell	Armstrong st	GRP	Complete	15	3	18	17/18	GRP and council land
Birtley	Birtley JV site	GRP	Complete	28	7	35	17/18	GRP and council land
Dunston	West Park	Keelman	Complete		12	12	17/18	Previous council land sold for affordable
Dunston	Park Close	Keelman	Complete		5	5	17/18	Previous council land sold for affordable

10.4.5 In 2016/17 90% of homes completed were on previously developed land, including Council-owned and part council owned sites (192), with a total of 82% average since the start of the plan period in 2010. The Council aims to maximise land use by considering all delivery mechanisms when disposing of its own land and this includes:

- The marketing and disposal of sites through open market sale;
- The inclusion of sites on the brownfield register and the preparation of site development frameworks;
- The procurement of a developer where we have specific Council aspirations and/or objectives for a site;

- Disposal and development through our joint venture partner, The Gateshead Regeneration Partnership;
- Development “in-house” - via the Gateshead Trading Company Ltd;
- Maintaining a long-term relationship with the Homes England to secure grant, gap and equity funding for affordable housing and those sites that have abnormal costs or difficult infrastructure challenges;
- Setting up new models of delivery to reduce the reliance on Council resources to deliver a range of housing for older people and those who experience disabilities – procurement of new, long term development and investment partners; and
- Ensuring that the Housing Revenue Account remains financially robust to fund new homes that meet the changing needs of current and future tenants.

10.4.6 Our development and disposal plan is available on-line and identifies all sites likely to be made available for disposal in the next three years. During the course of the year we assess further potential surplus sites which could be made available for development: The Development and Disposal Plan is subsequently updated to include suitable sites.

10.4.7 The Council regularly engages with developers and other housing providers through a series of business breakfasts; updating stakeholders on current planning matters, development opportunities, funding availability and other development related matters.

10.4.8 As part of the examination of Core Strategy, the Inspector recognised the challenges faced in delivery of new homes in the low to low mid areas of viability (demand): *‘Objectors had two main areas of concern about the SHLAAs. The first is the deliverability of sites in low and low-mid areas of demand, where viability is a significant issue. However, many of these sites are in public ownership and the Councils have demonstrated a strong commitment to obtaining finance and bringing them forward. There is evidence of successful joint venture partnerships with the private*

sector and, given the Councils' willingness not to always require the best financial reward, there is a reasonable prospect that most of these sites will deliver. ...'
(paragraph 41, CSUCP Inspector's Report, February 2015)

10.5 Commercial

10.5.1 The Gateshead and Newcastle Core Strategy and Urban Core Plan is fundamental to directing and supporting growth in the sectors and central sustainable locations that will help to deliver the economic growth that the NE demands.

10.6 Economic Development and Regional Working

10.6.1 Together the local authorities are also recognising the need for greater regional collaboration to achieve common goals. This finds its focus in the North East Local Enterprise Partnership (NE LEP) but also via the emerging Combined Authority. The seven NE LEP local authorities have collaborated and are currently consulting on a Draft Strategic Economic Plan. The Strategic Economic Plan (SEP) for the North East LEP is the document which sets out how the LEP will achieve its goals. The plan outlines the medium term economic objectives for the North East and identifies interventions and areas of investment to support economic growth, increases in productivity and increases in the number of people in employment. At the centre of its growth ambitions the SEP seeks to:

- Decrease the gap between the Region and national average on GVA;
- Increase the private sector employment density;
- Improve business density;
- Increase the employment rate of the Region

10.6.2 The creation of the North East LEP has brought a greater focus to economic development and there have been significant projects funded by both Regional Growth Fund and Growing Places Fund, as well as through the Newcastle City Deal. However, with new funding opportunities and policies on the horizon, including the Single Local Growth Fund and the EU Structural and Investment

Funds 2014-2020, there is an added impetus to ensure the North East is maximising the use of these new funds alongside existing local resources, together with our understanding of the strengths and challenges of our economy.

10.5.9 Economic analysis from the OECD demonstrates that strategy integration across key policy domains can deliver economic benefits at a regional level. It emphasises the importance of institutional capacity at the functional spatial level, a level which would be consistent with the proposed LA7 Area. This is supported by the recommendations of the recent North East Independent Economic Review. In short, a Combined Authority (CA) with appropriate resources offers the most beneficial option to enhance the region's ability to address its underlying economic challenges.

10.6.3 The CA will support Area-wide functions around the co-ordination of funding streams, seeking investment and collective sourcing, and other responsibilities devolved from central government and other agencies. As a result of utilising resources already held in the LA7 and the LEP, set up costs will be lower and will not undermine efficiency arguments.

10.6.4 The new Combined Authority will:

- Facilitate closer partnership working and is consistent with the recommendations of the recent North East Independent Economic Review.
- Through a co-ordinated approach to tackling the Area's priorities, increase the effectiveness and efficiency of the relevant functions and improve outcomes for local people.
- Through stronger centralised evidence collection and analysis functions, improve the exercise of statutory functions.
- Lead to an improvement in the economic conditions of the Area

10.7 New Development Deals

10.7.1 New Development Deals (NDDs), commonly known as Accelerated Development Zones (ADZs), were introduced through the Local Government Finance Bill. They are based on the principles that underpin Tax Increment Financing (“TIF”) 20 to unlock significant developments opportunities, by providing additional upfront finance for infrastructure investment.

10.7.2 TIF is a finance mechanism which allows local authorities to use anticipated future tax receipts to support upfront investment in their local area. TIF does not involve levying additional taxation, rather it involves borrowing against the forecast tax increment that accrues from additional development, in order to finance the enabling infrastructure required to allow that additional development to take place.

10.7.3 Prior to the measures announced in the Local Government Finance Bill, councils were unable to undertake TIF because they did not retain their business rates. Since April 2013 they are able to retain a share in business rates and will be able to use that to borrow against future business rates receipts within the existing prudential borrowing rules.

10.7.4 In addition, to support and encourage local authorities to use their new flexibilities to bring forward larger scale infrastructure projects with longer term borrowing periods, the Government introduced Enterprise Zones and NDDs that provide long term certainty over the retention of business rates revenues, guaranteeing the billing authority will retain all future business rates revenues from within a predefined area, the ADZ, for at least 25 years.

10.7.5 Ring fencing business rates revenues in this way can make significant sums available to a local authority over a long term period which could be used to finance infrastructure projects with longer term repayment periods.

10.7.6 Further to agreeing the Newcastle City Deal with Government in July 2012 and an implementation plan in September, the Department for Communities and Local Government (DCLG) have since confirmed that through the NDD, Newcastle and

Gateshead Councils will be able to retain all growth in business rate income across the ADZ sites for 25 years. These powers enable the Councils additional capacity to borrow funds for investment in economic infrastructure priorities in key employment growths sites, including Science Central, Stephenson Quarter, Gateshead Quays and Baltic Business Quarter.

10.8 Enterprise Zones

10.8.1 Enterprise Zone status affords companies a number of benefits;

- Business rate discount – businesses can claim up to 100% discount against business rates that are worth up to £275,000. This can be claimed over a five year period through occupying premises on an Enterprise Zone site. This is the equivalent of £55,000 per year but does not need to be taken as an even annual split. To take advantage of this benefit, a business must be located on the site by the end of March 2018 for Round 1 sites and by the end of March 2021 for Round 2 sites
- 100% enhanced capital allowances – this tax relief is issued to businesses making large investments in plant and machinery. Businesses wanting to take advantage of the enhanced capital allowance must be located on site and make the claim by the end of March 2020 for Zone 1 sites and by the end of March 2025 for Zone 2 sites

10.8.2 The first round of Enterprise Zones were launched in April 2010 to support economic growth in the City by providing tax breaks and a range of interventions to enable the establishment of new businesses and the growth of existing ones. The second round of sites were launched in April 2016.

10.9 Newcastle

10.9.1 In Newcastle the Walker Riverside Enterprise Zone has a Local Development Order simplifying the planning processes and permissions required for economic activity. Each site was strategically selected to drive growth and to capitalise on local strengths. Enterprise Zone sites in Newcastle include:

- **East Pilgrim Street**

7.9 ha site East Pilgrim Street represents one of the most strategically important areas of Newcastle city centre. Given its close proximity to the city's shopping centre the northern part of the site has been earmarked for mixed-use, retail-led development, with the central and southern areas being developed for mixed uses including office, residential and leisure.

- **Newcastle Helix**

Developing rapidly to create one of Europe's leading innovation quarters, the 9.7ha site will bring together industry leaders, researchers and residents in a new, high-quality community. It is an exemplar of sustainable urban development which combines prestigious commercial and residential space with first-class research and education facilities in the heart of a flourishing city. Home to the UK's National Innovation Centres for Data and Ageing and significant university research assets, Newcastle Helix offers developers opportunities to capitalise on academic excellence to drive growth.

- **Stephenson Quarter**

Adjacent to Newcastle Central Station and set to become a leading office and knowledge district. A successful phase one is already complete on the 4ha site, with a new 4* hotel, multi-story car park, high spec conference/ music venue and fully occupied Grade A office space. Further office space will be created over the next 12 months with a focus on tech-based companies, sitting alongside a business-focused technical college and quality landscaping across the site.

10.10 Gateshead

10.10.1 In Gateshead:

- over £10m of funding has been secured from ERDF and Single Programme over the last five years to facilitate economic development in the urban core.

- the Economic Growth Acceleration Plan 2014-18 sets out a series of high level interventions to maximise and accelerate growth by linking commercial, housing, regeneration and skills objectives. Through its Medium Term Financial Strategy the Council reallocated funds to create a new Economic Growth Reserve to help stimulate strong and sustainable economic growth, through a planned approach to strategic investment within the framework of the Gateshead Economic Growth Acceleration Plan. Investments are made where they can bring about a material improvement that the economy cannot deliver itself.
- Following on from an assessment of market conditions in 2015, the Council produced a business case and financial analysis which indicated that there is a reasonable prospect of an office scheme at Baltic Quarter being viable and generating a surplus for the Council when tacking in to account the impact of retained business rates through the ADZ. Development of a speculative 5,000sq m office development at Baltic Quarter is due to commence in August 2018.
- Enterprise Zone status was secured for Follingsby South and four undeveloped sites in Follingsby Park. The EZ is a 28-hectare site that will support the growth in the manufacturing and distribution sectors in Gateshead, accommodating 120,000 sqm of employment space and providing up to 2,000 jobs. Enterprise Zone benefits included 100% retention of business rate growth for LEAs, for 25 years, that has enabled investment through a Tax Increment Financing approach to support enabling infrastructure and development viability. The delivery of infrastructure is currently underway. It is anticipated that construction will commence in 2019.
- The Council's Corporate Asset Strategy and Management Plan 2015 – 2020 (the CASMP) sets out how the Council will use its land and building assets to deliver on the Council's policy priorities. The CASMP sets out the need for district centres to continue to be relevant and viable whilst recognising that this is only possible through ongoing investment by both the private and public sector. The Council has therefore used its land to facilitate the regeneration of the shopping centres at Blaydon, Felling and Birtley.



- In relation to economic development the CASMP provides that the Council will use both the TNRP (Tenanted non-residential property portfolio) and land to create employment opportunities. In relation to the TNRP in granting new leases and re-gearing leases the council has facilitated the retention and expansion of businesses at East Gateshead Industrial Estate.

11 Conclusions

- 11.7 The July 2018 version of the NPPF again places viability at the heart of plan-making (which was also a core principle in the now superseded 2012 version). Paragraph 34 states that any policies brought forward by a Local Authority through its plan-making process “should not undermine the deliverability of the plan”.
- 11.8 The purpose of this report is therefore to test development viability across the Gateshead and Newcastle boundaries, to determine whether emerging policies can be delivered or if not, what adjustments are appropriate to ensure they are deliverable.
- 11.9 This report supports part three the Gateshead Plan, Making Spaces for Growing Places, and part two of Newcastle’s Plan, the Development and Allocations Plan (which follow on from the Gateshead and Newcastle Core Strategy and Urban Core Plan). It specifically addresses:
- Previous viability testing undertaken by the Local Authorities and whether any adjustments are appropriate to reflect market changes, policy amendments etc.
 - Sets out the methodology adopted to undertake the viability testing (including the iterative nature of the process).
 - Refers to key evidence used to inform the study.
 - Details the appraisal testing undertaken and the results for each.
- 11.10 The report also discusses stakeholder engagement, detailing the process undertaken since the first engagement in October 2017 and also the comments received by stakeholders. The process of engagement involved a variety of methods; including

questionnaires, workshops and one to one meetings. The main themes identified through this process related to residential development, as follows:

- The potential introduction of the Nationally Described Space Standards ('NDSS'), in particular concerns over the impact this would have on net developable site areas and also affordability for purchasers.
- The potential introduction of the Building Regulations M4 (2) / M4 (3) standards in relation to dwelling accessibility. Concerns were raised that the associated additional costs would undermine viability and also increased size of dwellings would negatively impact on net developable areas (and therefore in turn scheme deliverability).
- Certain viability assumptions being either too high (sales values) or too low (external costs allowances, abnormals and benchmark land values) in the viability testing.

11.11 The outputs from this engagement process has fed into the approach adopted in the viability testing, together with the other sources of evidence identified.

11.12 In terms of the general appraisal inputs, whilst we took into consideration comments from stakeholders, we concluded that the majority of the assumptions adopted in previous viability testing (as undertaken by Newcastle and Gateshead during earlier parts of the plan-making process) were broadly reasonable and could be applied again for the purposes of this study. This included testing 5 different value areas (defined as low, low-mid, mid, high-mid and high), as well as sites being either urban / sub-urban or non-urban. However, adjustments were made to sales values and plot construction costs, in accordance with prevalent data.

11.13 With regards to NDSS, it has been concluded that, applying an average approach to the NDSS rates (which we considered to be appropriate for the purposes of a high-level viability study of this nature), the subsequent density rates and net developable

areas were at acceptable levels (and in fact similar to previous assumptions undertaken in past viability studies undertaken by Newcastle and Gateshead). We also concluded that changes in affordability would be relatively limited.

- 11.14 Net developable areas were considered in the context of the emerging public open space standards (for both Gateshead and Newcastle). In light of the policy requirements, including the fact that this will be delivered through a combination of off-site and on-site contributions it has been concluded that, incorporating the public open space standards, the net developable areas are at a deliverable level.
- 11.15 For the M4 (2) and M4 (3) standards, we identified additional costs associated for each. For M4 (2) we arrived at a capital cost equivalent to £2,000 per dwelling. For M4 (3) this increased significantly to between £9,000 and £25,000 per dwelling (dependent on which element of the standard was applied). These costs were incorporated into the iterative appraisal testing approach.
- 11.16 As for S106 contributions, to include any off-site element to the emerging public open space standard, it was concluded that an allowance of £2,000 per dwelling was an appropriate average. However, having looked at past S106 capital contributions received in Gateshead and Newcastle, a further test was considered appropriate for non-urban sites, at an increased figure of £4,000 per dwelling. CIL was added in addition to this, in line with existing policy.
- 11.17 In terms of the residential typology appraisal testing adopted (in light of the above), the approach can be summarised as follows:

Base appraisals – this was the starting point for the iterative testing process. This incorporated a variety of assumptions (as discussed above, the majority of which were consistent with past viability testing undertaken by Gateshead and Newcastle). We therefore tested the 5 different value areas, for both urban / suburban and non-urban sites. A 15% on-site affordable housing provision was applied. An allowance of £2,000 per dwelling was applied for S106 capital contributions (plus a separate test of £4,000 per dwelling for non-urban sites). NDSS was also applied (however M4 (2)

and M4 (3) were not applied). The outcomes were similar to past studies, with the majority of mid, high-mid and high value areas returning a viable outcome, the low mid and low areas remaining generally unviable.

M4 (2) appraisals – this followed the base appraisals, but also included costs for providing the M4 (2) standard. We tested the standard being applied to 25%, 50% and 90% of dwellings. We concluded that M4 (2) should apply to 25% of the dwellings, as increasing to 50% or 90% would risk undermining the delivery of some of the typologies.

M4 (3) appraisals – this built on the M4 (2) appraisals, but also included costs for providing the M4 (3) standard. We tested the standard being applied to 5% and 10% of dwellings. We concluded that the costs of including the M4 (3) risked undermining the delivery of some of the typologies, therefore should not be taken forward.

Low costs developer appraisals – this built on the base appraisals but was based on a developer who specialises in delivering homes in low value locations (the main difference being their build costs are often lower than other builders). All of the low-mid value and some of the low value typologies were shown to be viable, which represented a change from the base appraisals. This testing suggested that the private sector could deliver sites in low value locations (in line with actual site delivery in recent years and also sties currently being brought forward / promoted).

5% reduction in sales values appraisals – some stakeholder comments raised concerns about sales values and whether they were over-stated. Whilst we stand by the figures applied, this sensitivity testing looked at the impact of reducing the sales values by 5%. The results, in terms of whether a scheme was viable or unviable were shown to be similar to that of the base appraisals.

Build to rent / Private rented sector appraisals – this reflected Build to Rent products having a different dynamic in terms of sales, estimated profits etc. We tested a typology of 100 apartments. Our results showed that there was likely to be viability pressure in this sector, which could impact on the level of policy contributions.

11.18 In terms of site specific appraisals (29 in total), we have followed the methodology applied to the typology testing. The sites used in the assessments have been identified to represent a wide spectrum of sites across the Newcastle and Gateshead markets, reflecting different value band areas, other locational factors, site types and sizes. Applying the NDSS and the emerging policies (including separate analysis of the M4 (2) standard) demonstrates that the majority of sites are deliverable. For those sites that do return an unviable outcome there are other circumstances which drive the increased viability pressure (for example 2 sites are conversion projects rather than new build therefore have different associated costs, 4 of the sites are located within low value areas but are small therefore could be unlikely to attract a low cost developer, 1 site has a density significantly lower than a normal scheme). Chapter 10 of the report details the approach and interventions in the market by the councils in areas of low demand in order to facilitate delivery.

11.19 Overall, based on the appraisal testing undertaken (both typology and site specific), including the sensitivity analysis, we therefore conclude the following:

- The NDSS can be viably provided and would not undermine overall plan deliverability.
- The emerging public open space standards in MSGP and DAP local plans does not impact on the overall viability of residential development, nor do all other emerging policies.
- M4 (2) accessible and adaptable standards in MSGP and DAP local plans should be limited to 25% of dwellings and not any higher proportion. The

M4 (3) standard should not be brought forward, as this would potentially undermine scheme viability.

- Specialist private housebuilders are able to deliver schemes in lower value locations and therefore delivery in these areas will not be limited to public sector led projects only.

11.20 For the non-residential testing, again the adopted assumptions were mostly in line with previous viability studies undertaken by Newcastle and Gateshead, albeit with adjustments to basic construction costs and revenue to reflect current market conditions.

11.21 There were no significant concerns raised by stakeholders regarding the non-residential testing.

11.22 Our appraisals showed that retail warehousing, supermarket, retail, hotel and student accommodation schemes were viable, however mostly only in high value areas. Only retail warehousing and supermarkets showed viable outcomes in low and medium value areas. All other typologies (including industrial and office schemes) were shown to be unviable.

Note to Reader- Changes to Report/ Appendices at Submission (March 2019):

Report Chapter (para.):

- Chapter 8 para 8.7.1 on Build to Rent appraisal outcome, 8.1.8/9 clarification on assisted living testing.
- Chapter 9 para 9.2.2 sub-para titled 'Student' on Student rental income
- Chapter 9 para 9.3.1 small retail construction costs in city centre
- Chapter 9 para 9.6.1 non-residential appraisal outcomes

Appendices:

- Appendix 2 Stakeholder Representation Tables Added:
Table 2C 2018 Viability Assumption Responses Received at Regulation 19 and Additional Clarification Comments
Table 2D 2018 Viability Representations and Responses Received at Regulation 19
- Appendices 3-9 updated dates and participants of stakeholder meetings
- Appendix 4 Added Note of Meeting Persimmon Homes and Taylor Wimpey and Newcastle City Council- 1/2/2019
- Appendix 19 Build to Rent table updated/corrected
- Appendix 20 Commercial baseline modelling table updated/corrected