Local Plan - Additional site options - viability assessment

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Warwick District Council

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Appendices

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1 Executive Summary

1.1 This report tests the viability of seven major housing sites that Warwick District Council is considering allocating as development sites in its Local Plan, following concerns raised by the Inspector on housing land supply. The study adopts an approach that is in line with the requirements of the National Planning Policy Framework ('NPPF') and the Local Housing Delivery Group guidance '*Viability Testing Local Plans: Advice for planning practitioners*'.

Methodology

1.2 The study methodology compares the residual land values of the seven major developments to appropriate 'benchmark land values'. If a development incorporating the Council's policy requirements generates a higher residual land value than the benchmark land value, then it can be judged that the site is likely to be deliverable. Following the adoption of policies, developers will need to reflect policy requirements in their bids for sites, in line with requirements set out in the RICS Guidance on 'Financial Viability in Planning'[1] .

1.3 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance, sustainability requirements) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.

1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed Local Plan policies at a time when the market is recovering after a severe recession. Residential values in Warwickshire have recovered and are now 3.1% higher than their December 2007 peak. Forecasts for future house price growth point to continuing growth in mainstream UK markets. We have allowed for this by running a sensitivity analysis which varies the base sales values and build costs, with values increasing by 3% to 4% per annum in real terms.

1.5 This analysis is indicative only, as future growth cannot be accurately forecast, but is intended to assist the Council in understanding the viability of key sites both in today's terms but also in the future.

Key findings

1.6 The key findings of the study are as follows:

- The seven sites are likely to be viable over the plan period, although at current values two sites are only just viable and are thus somewhat vulnerable to falling values or increased costs. It is therefore important that the Council keeps the viability situation under review so that policy requirements can be adjusted should conditions change markedly.

- All seven sites are viable at current values and are able to meet the Council's requirements in terms of affordable housing and CIL.

[1] This guidance notes that when considering site-specific viability "*Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan*". Providing therefore that Site Value does not fall below a site's existing use value, there should be no reason why policy requirements cannot be achieved.

- The replacement of the Council's rented and intermediate affordable housing requirement by 'Starter Homes' sold at 80% of market value (subject to a £250,000 cap) would significantly enhance residual land values. However, we assume that some rented housing will be required from some sites to meet housing needs that cannot be satisfied by housing for sale.

- A flexible approach to application of affordable housing targets will ensure the viability of developments is not adversely affected over the economic cycle.

- The Council will need to work closely with developers to ensure that land is acquired at an appropriate price to enable policy requirements to be met. Viability issues typically emerge as a result of landowners' unrealistic expectations.

- Markets are inherently cyclical and there is no guarantee that developers will build out sites that secure planning permission within the timescales that the Council anticipates. Clearly the Council controls development management powers, which it could apply expeditiously to ensure that sites are ready for when developers perceive demand to be sufficiently high to proceed.

- The Council could also incentivise the sale of land to developers by requesting Starter Homes in place of 'traditional' affordable housing. However, the Council should be mindful of the risk that this would take buyers away from non-discounted stock who would have purchased without the discount.

2 Introduction

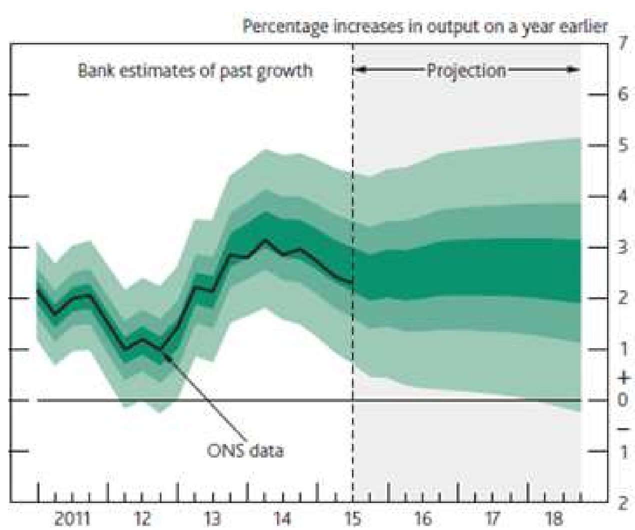
2.1 This study has been commissioned to contribute towards an evidence base to inform the Council's emerging Local Plan. The aim of the study is to assess the viability of key sites identified in the Council's draft Local Plan.

2.2 In terms of methodology, we adopted standard residual valuation approaches to test the viability of the additional sites. These appraisals adopt sales values that are currently achievable in the surrounding areas and costs benchmarked from other similar developments. After detailed technical surveys have been undertaken, additional costs may emerge (e.g. abnormal ground conditions), but should be reflected in the value paid to acquire the land.

Economic and housing market context

2.3 The housing and commercial property markets are inherently cyclical. The historic highs achieved in the UK housing market by mid-2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US subprime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.

2.4 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate. This, together with a return to economic growth early in 2010 (see November 2015 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth up to 2018) meant that consumer confidence started to improve.



2.5 Source: Bank of England

2.6 Throughout the first half of 2010 there were tentative indications that improved consumer confidence had fed through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this led to a recovery in prices. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012. The recovery during this period was partially attributed to first time buyers seeking to purchase prior to the reintroduction of stamp duty from 1st April 2012. The signs of improvement in the housing market towards the end of 2012 continued through into 2013 at which point the growth in sales values improved significantly through to the last quarter of 2014, where the pace of the improvement was seen to moderate and this has carried through into 2015.

2.7 Nationwide reports on the increase of annual price growth in their October 2015 Housing Price Index Update identifying that "*the annual pace of price growth edged up to 3.9% from 3.8*" in September. This view is shared with the Halifax who state that "*the annual rate of price growth increased from 8.6% in September to 9.7%".* In addition to the annual house price growth, Nationwide report that the monthly UK house prices have also increased by 0.6% in October; whilst Halifax report an increase in quarterly change, reporting "*house prices in the three months to October were 2.8% higher than in the previous three months*". Although both Halifax and Nationwide wide report positive trends in house prices, it should be noted that monthly movements can be volatile and the quarter-on-quarter change is a more reliable indicator of the underlying trend.

2.8 However despite relatively benign market conditions, both Halifax and Nationwide comment on the continuing concern of supply. Halifax state that "*the ongoing shortage of supply is acting as a significant constraint on activity*" and "*the imbalance between supply and demand is likely to persist over the coming months, maintaining upwards pressure on house prices*". Therefore market conditions will be influenced by the ability of the industry to increase output to match supply and demand.

2.9 It is noted Halifax reports that "*UK home sales increased by 1% between August and September to 106,030*", and this is the "*second successive monthly rise*". The Halifax continues to report that these increases in house sales are a direct result of mortgage approvals, stating that "*the volume of mortgage approvals for house purchases is a leading indicator of completed house sales*".

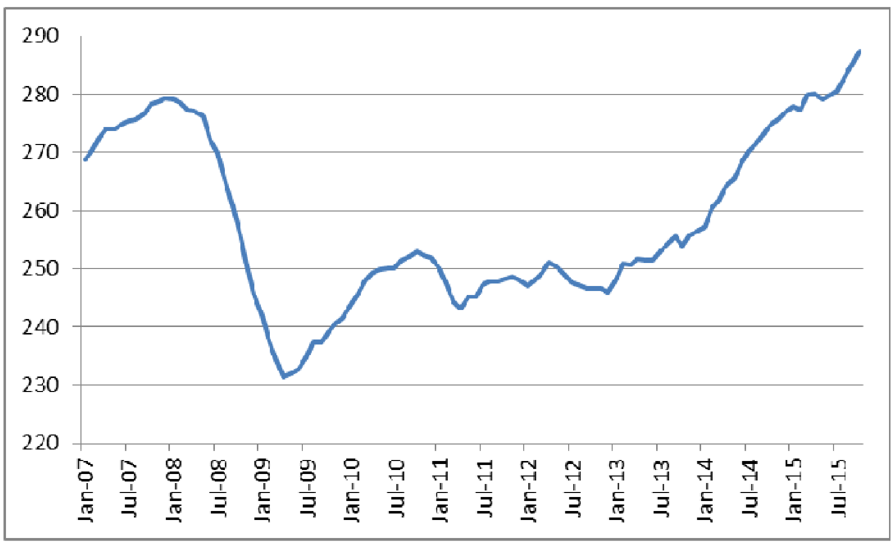
2.10 Nationwide also comments on mortgages, reporting that "*90% of new mortgages were contracted on fixed rates over the past twelve months*" which is considered to be a direct result of ongoing uncertainty about the timing of UK interest rate increases and the "*desire to lock in low interest rates*". Mortgage lending on fixed rates has been steadily increasing since 2010 and the "*proportion of lending accounted for by fixed rate deals have surpassed the levels prevailing before the financial crisis*". Fixed rate mortgages are reported to be most popular amongst first time buyers, where the certainty of monthly payments is important for budgeting purposes. In the past twelve months "*95% of new mortgage lending to first time buyers was on a fixed rate*".

2.11 Nationwide highlights that, "*historically low interest rates have helped to offset the negative impact of rising house prices on affordability*". Further, "even though house prices are at an all-time high, the cost of servicing a typical mortgage is still close to the long term average as a share of take home pay". They go on to consider whether the market will cope with higher interest rates, stating that the "*proportion of outstanding mortgages on variable interest rates has declined steadily, and this should help to insulate many households from the impact of higher interest rates*"; however it should be noted that "*the majority of recent fixes are for short time periods of two and five years*". Nevertheless, "*the market should be able to cope with higher interest rates in the year ahead* *provided the increase is modest and the economy and labour market remain in good shape*". It is expected that any increase in interest will be gradual and settle at a level below the average before the financial crisis, which should help ensure borrowing costs remain manageable.

2.12 The future trajectory of house prices is currently uncertain, although all forecasted predictions by numerous property companies expect sales values to increase over the next five years. There is a consensus that price growth is expected to return to sales value growth in 2016 following the modest growth seen over the second half of 2015. BNP Paribas Real Estate's UK Housing Market Prospectus Report (August 2015) summarises the future market outlook by identifying that, "*there are both positive and negative factors to consider. Robust economic growth will continue to underpin earnings and employment, however, rising base rates will combine with the ongoing withdrawal of supportive monetary measures. This will dampen affordability and the capacity for house price growth to be delivered over the medium term. We forecast average annualised nominal growth of 7.6% per annum for the UK as a whole over the period 2016 to 2019*".

2.13 According to Land Registry data, residential sales values in Warwickshire have recovered since the lowest point in the cycle in June 2009. Prices increased by 24.2% between April 2009 and October 2015. In October 2015, sales values were 3.1% higher than the previous peak in December 2007.

Figure 2.13.1: House prices in Warwickshire



Source: Land Registry

2.14 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in mainstream West Midlands markets will grow over the period between 2016 to 2019[2]. Savills predict that values in mainstream West Midlands markets (i.e. non-prime) will increase by 4.5% in 2016, 4.5% in 2017, 3.0% in 2018 and 3.0% in 2019. This equates to cumulative growth of 18.2% between 2016-2019 inclusive.

[2] Savills Research: Residential Property Focus, Quarter 4 2013

National Policy Context

The National Planning Policy Framework

2.15 The National Planning Policy Framework ('NPPF') provides more in-depth guidance on viability of development than previous planning policy statements. The NPPF requires that local planning authorities have regard to the impact on viability of the cumulative effect of all their planning requirements on viability. Paragraph 173 of the NPPF requires that local planning authorities give careful attention "*to viability and costs in plan-making and decision-taking*". The NPPF requires that "*the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened*". After taking account of policy requirements, land values should be sufficient to "*provide competitive returns to a willing landowner and willing developer*".

2.16 The meaning of a "*competitive return*" has been the subject of considerable debate over the past year. For the purposes of testing the viability of a Local Plan, the Local Housing Delivery Group[3] has concluded that the current use value of a site (or a credible alternative use value) plus an appropriate uplift, represents a competitive return to a landowner. Some members of the RICS consider that a competitive return is determined by market value[4], although there is no consensus around this view.

Local Policy context

2.17 The Council's Local Plan was the subject of an Examination in Public between 6 and 12 May 2015. On 1 June 2015, the Inspector wrote to the Council with his initial findings in relation to 3 matters: the duty to cooperate; soundness in terms of overall housing provision; and sounds in terms of the supply and delivery of housing land. With regards to the third matter (supply and delivery of housing), the Inspector noted that the Council's objectively assessed housing need identified a requirement for 12,960 dwellings over the plan period. The Council had identified sites that could accommodate 12,711 dwellings, slightly fewer than the required number. The Inspector raised concerns about the Council's reliance on windfall sites (2,276 dwellings out of the total 12,711 identified).

2.18 The Inspector also raised concerns with regard to 'persistent under delivery of housing' and recommended that a 20% buffer should be applied (in line with NPPF requirements). Consequently, the Examination of the Plan has been suspended to give the Council an opportunity to address the Inspector's concerns.

2.19 Policy H2 of the Local Plan (submission version, January 2015) identifies that sites providing 11 or more dwellings (with a total gross floorspace of more than 1,000 square metres) will be expected to provide a minimum of 40% affordable housing. The tenure mix of the affordable housing will be subject to negotiation, local needs and viability.

Development context

2.20 The District is a predominantly rural area, with three main settlements (Warwick and Royal Leamington Spa to the south and Kenilworth to the north. The District is adjacent to Coventry to the northern boundary. Developments in Warwick District range from small in-fill sites in rural areas to urban extensions attached mainly to the three main settlements and to Coventry across the

[3] Viability Testing Local Plans: Advice for planning practitioners, June 2012

[4] RICS Guidance Note: Financial Viability in Planning, August 2012

District’s boundary.

2.21 The District is dissected to the south by the M40, which provides road access via junction 15 to Birmingham and London. The A46 provides access into Coventry.

2.22 The Council’s Strategic Housing Land Availability Assessment (‘SHLAA’) indicates that most new development will be located in urban extensions adjacent to the three main urban centres within the District, and adjacent to Coventry across the District boundary.

2.23 Residential sales values for new developments vary significantly between different parts of Warwick District. Our research indicates that there are higher values in some of the rural settlements (e.g. Barford, Norton Lindsey and Shrewley) than in the main settlements of Warwick, Leamington Spa and Kenilworth. Among the three main settlements, properties in Leamington Spa attract higher average sales values than Warwick and Kenilworth.

2.24 The District’s main employment centre is at Leamington Spa, with some companies located in Warwick. Employers in the District include financial and business services companies, such as Merrill Lynch, Millward Brown and IBM. The University of Warwick is also a major employer in the District.

2.25 The retail market in Leamington Spa is understood to be performing reasonably well, with higher levels of expenditure on comparison goods than average retail centres and lower vacancy rates than average levels. The retail offer includes House of Fraser and two Marks and Spencer stores.

Disclaimer

2.26 In accordance with PS 1.6 of the RICS Valuation – Professional Standards (January 2014 Edition) (the ‘Red Book’), the provisions of VPS 1 to VPS 4 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation.

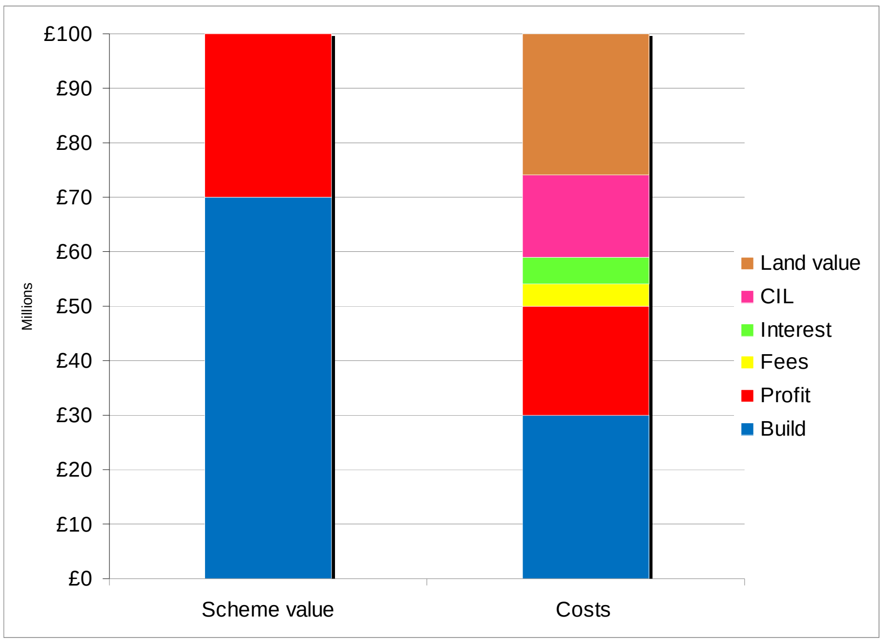
2.27 This report is addressed to Warwick District Council only and should not be relied upon for any purpose other than stated in this section.

3 Methodology and appraisal inputs

3.1 Our methodology follows standard development appraisal conventions, using locally-based assumptions that reflect local market and planning policy circumstances. The study is therefore specific to sites in Warwick and reflects the Council's existing and emerging planning policy requirements.

Approach to testing development viability

3.2 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing (the blue portion) and the payment from a Registered Provider ('RP') (the red portion) for the completed affordable housing units. For a commercial scheme, scheme value equates to the capital value of the rental income after allowing for rent free periods and purchaser's costs. The model then deducts the build costs, fees, interest, CIL and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the brown portion of the right hand bar in the diagram.



3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of existing use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

3.4 Problems with key appraisal variables can be summarised as follows:

- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in 'normal' circumstances. In districts like Warwick, some sites in the urban areas will be previously developed. These sites can sometimes encounter 'exceptional' costs such as decontamination. Such costs can be very difficult to anticipate before detailed site surveys are undertaken;

- Assumptions about development phasing, phasing of Section 106 contributions and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of the obligations are deferred, the less the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and
- While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. While profit levels were typically up to around 15% of completed development value at the peak of the market in 2007, banks currently require schemes to show a higher profit to reflect the current risk. Typically developers and banks are targeting around 18-20% profit on value of the private housing element.

3.5 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value[5]' or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

3.6 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Viability benchmark

3.7 The NPPF is not prescriptive on the type of methodology local planning authorities should use when assessing viability. The National Planning Practice Guidance indicates that the NPPF requirement for a 'competitive return' to the landowner will need to allow for an incentive for the land owner to sell and options may include "*the current use value of the land or its value for a realistic alternative use that complies with planning policy*" (para 024; reference ID 10-024-20140306).

3.8 The Local Housing Delivery Group published guidance[6] in June 2012 which provides guidance on testing viability of Local Plan policies. The guidance notes that "*consideration of an appropriate Threshold Land Value [or viability benchmark] needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy*".

[5] For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

[6] Viability Testing Local Plans: Advice for planning practitioners, Local Housing Delivery Group, Chaired by Sir John Harman, June 2012

3.9 In light of the weaknesses in the market value approach, the Local Housing Delivery Group guidance recommends that benchmark land value "*is based on a premium over current use values*" with the "*precise figure that should be used as an appropriate premium above current use value [being] determined locally*". The guidance considers that this approach "*is in line with reference in the NPPF to take account of a "competitive return" to a willing land owner*".

3.10 The examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded that:

"The market value approach…. while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context." (para 8) and that "*I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done*" (para 9).

3.11 In his concluding remark, the Examiner points out that

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

3.12 It is important to stress, therefore, that there is no single threshold land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each planning authority.

3.13 Respondents to consultations on planning policy documents in other authorities have made various references to the RICS Guidance on '*Viability in Planning'* and have suggested that councils should run their analysis on market values. This would be an extremely misleading measure against which to test viability, as market values should reflect *existing policies already in place*, and would consequently tell us nothing as to how future (as yet un-adopted) policies might impact on viability. It has been widely accepted elsewhere that market values are inappropriate for testing planning policy requirements.

3.14 Relying upon historic transactions is a fundamentally flawed approach, as offers for these sites will have been framed in the context of *current* planning policy requirements, so an exercise using these transactions as a benchmark would tell the Council nothing about the potential for sites to absorb *as yet unadopted* policies. Various Local Plan inspectors and CIL examiners have accepted the key point that Local Plan policies and CIL will ultimately result in a reduction in land values, so benchmarks must consider a reasonable minimum threshold which landowners will accept. For local authority areas such as Warwick, the 'bottom line' in terms of land value will be the value of the site in its existing use. This fundamental point is recognised by the RICS at paragraph 3.4.4. of their Guidance Note on 'Financial Viability in Planning":

"For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as 'competitive returns' respectively). The return to the landowner will be in the form of a land value in excess of current use value".

3.15 Commentators also make reference to 'market testing' of benchmark land values. This is another variant of the benchmarking advocated by respondents outlined at paragraph 3.13. These respondents advocate using benchmarks that are based on the prices that sites have been bought and sold for. There are significant weaknesses in this approach which none of the respondents who advocate this have addressed. In brief, prices paid for sites are a highly unreliable indicator of their actual value, due to the following reasons:

- Transactions are often based on bids that 'take a view' on squeezing planning policy requirements below target levels. This results in prices paid being too high to allow for policy targets to be met. If these transactions are used to 'market test' CIL rates, the outcome would be unreliable and potentially highly misleading.

- Historic transactions of housing sites are often based on the receipt of grant funding, which is no longer available.

- There would be a need to determine whether the developer who built out the comparator sites actually achieved a profit at the equivalent level to the profit adopted in the viability testing. If the developer achieved a sub-optimal level of profit, then any benchmarking using these transactions would produce unreliable and misleading results.

- Developers often build assumptions of growth in sales values into their appraisals, which provides a higher gross development value than would actually be achieved today. Given that our appraisals are based on current values, using prices paid would result in an inconsistent comparison (i.e. current values against the developer's assumed future values). Using these transactions would produce unreliable and misleading results.

3.16 These issues are evident from a recent BNP Paribas Real Estate review of the differences between the value ascribed to developments by applicants in their viability appraisals and the amounts the sites were purchased for by the same parties. The prices paid exceeded the value of the consented schemes by between 52% and 1,300%.

3.17 For the reasons set out above, the approach of using current use values is a more reliable indicator of viability than using market values or prices paid for sites, as advocated by certain respondents. Our assessment follows this approach, as set out in Section 4.

4 Baseline information on sites tested

4.1 We have appraised seven major developments identified by the Council, reflecting a range of sizes of development and densities of development across the District.

4.2 Baseline information on the seven sites is provided in Table 4.2.1. All the sites are included in the Council's Strategic Housing Land Availability Assessment ('SHLAA') May 2014.

Table 4.2.1: Sites tested in this study

Site no	Settlement	Location	Site area (ha)	Number of residential units
1	Edge of Coventry	Westwood Heath	52.96	850
2	Edge of Coventry	Kings Hill Lane	269.2	4,000 (2,100 in plan period)
5	Kenilworth (east)	Crewe Gardens, Crewe Lane	37.28	300
6	Kenilworth (east)	Woodside Training Centre	6.50[7]	100
7	Kenilworth (east)	Kenilworth Golf Club	51.04	875
8	Kenilworth (south)	Land E of Kenilworth Road	5.68	100
n/a	Edge of Coventry	Hurst Farm	99.9	1,400

4.3 The Council has not at this stage formulated a view on the social infrastructure that will be required to support new residents. We have therefore made the following assumptions:

- Site 1: 1 x 2 form entry primary school
- Site 2: 4 x 2 form entry primary schools and a secondary school
- Site 5: financial contribution towards education
- Site 6: financial contribution towards education
- Site 7: 1 x 2 form entry primary school
- Site 8: financial contribution towards education
- Hurst Farm: 2 x 2 form entry primary school

4.4 The Council is not aware of any unusual infrastructure requirements and we have not been advised of any requirements for major highways works or improvements arising from the proposed developments. Our appraisals therefore make no allowances for any such upgrades.

[7] The entire site including training centre is 15.01 hectares. Training Centre is to be retained and land has therefore been removed from the site area.

4.5 The Council has instructed that we consider the individual viability of sites 1, 2, 5, 6 and 8, on the basis that they are allocated in addition to the sites that have already been allocated in the Plan (February 2015). The sites already allocated are summarised in Table 4.5.1.

Table 4.5.1: Sites allocated in the submission version of the Local Plan

Ref	Site name	Type of site	Estimated no of residential units	Infrastructure
H01	Land at Myton School	Brownfield	125	-
H02	Former sewage works, south of Harbury Lane	Brownfield	215	Country Park
H09	Kenilworth School site	Brownfield	250	-
H10	Station Approach, Leamington	Brownfield	220	-
H11	Land at Montague Rd	Brownfield	140	-
H12	Kenilworth Sixth Form College	Brownfield	130	-
H13	Soans Site, Sydenham Drive	Brownfield	100	-
H14	Riverside House	Brownfield	100	-
H15	Leamington Fire Stn	Brownfield	60	-
H16	Court Street	Brownfield	75	-
H17	Garage Site, Theatre St	Brownfield	20	-
H39	Opus 40, Birmingham Road, Warwick	Brownfield	100	-
H01	Land West of Europa Way	Greenfield	1,112	Extended secondary school, Primary school, health facilities, Local Centre, Sports Stadium
H02	Land south of Harbury Lane (excl former sewage works)	Greenfield	1,505	2 x primary schools, Local Centre, Community facilities, Country Park
H03	East of Whitnash/South of Sydenham	Greenfield	300	-
H04	Red House Farm	Greenfield	250	-
H06	East of Kenilworth	Greenfield	760	Primary school and Local Centre
H07	Crackley Triangle	Greenfield	93	-
H08	Oaklea Farm, Finham	Greenfield	20	-
	Growth villages (21 sites)	Greenfield	744	-
Total units			**6,319**	

4.6 The Council has instructed that we then consider the individual viability of site 7 and the site at Hurst Farm, on the basis that they are allocated in addition to the sites in paragraph 4.5 above.

5 Appraisal inputs

5.1 In this section, we summarise the key inputs to our development appraisals of the seven sites.

Residential sales values

5.2 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of transacted properties in the area and also properties on the market to establish appropriate values for each scheme for testing purposes. This exercise indicates that the developments on the seven sites will attract average sales values ranging from circa £2,975 per square metre (£276 per square foot) to £3,285 per square metre (£305 per square foot).

Table 5.2.1: Sales values adopted in appraisals

Site no	Settlement	Location	Sales value per square metre
1	Edge of Coventry	Westwood Heath	£3,050
2	Edge of Coventry	Kings Hill Lane	£2,975
5	Kenilworth (east)	Crewe Gardens, Crewe Lane	£3,285
6	Kenilworth (east)	Woodside Training Centre	£3,285
7	Kenilworth (east)	Kenilworth Golf Club	£3,285
8	Kenilworth (south)	Land E of Kenilworth Road	£3,285
n/a	Edge of Coventry	Hurst Farm	£3,050

5.3 As noted earlier in the report, Savills predict that sales values will increase over the medium term (i.e. the next five years). Whilst this predicted growth cannot be guaranteed, we have run a series of sensitivity analyses assuming growth in sales values of 3% to 4% in real terms per annum. These sensitivity analyses provide the Council with an indication of the impact of changes in values on scheme viability.

Affordable housing tenure and values

5.4 Policy H2 of the Local Plan (submission version, January 2015) identifies that sites providing 11 or more dwellings (with a total gross floorspace of more than 1,000 square metres) will be expected to provide a minimum of 40% affordable housing. The tenure mix of the affordable housing will be subject to negotiation, local needs and viability. We have assumed that the tenure mix will be 80% rented and 20% intermediate.

5.5 Our appraisals assume that the rented housing is provided as affordable rent, but at rent levels that do not exceed the Local Housing Allowance ('LHA'), in line with the recent announcement of new rent caps in the Autumn Statement. The LHAs that apply in the District and the capital values that are generated are summarised in Table 5.5.1. The District lies within three 'Broad Rental Market Areas' ('BRMA') and the additional sites fall within Coventry BRMA and Warwickshire BRMA.

Table 5.5.1: LHA levels and capital values

BMRA / Sites	Unit type	LHA per week	Capital value (per square foot)
Sites 1, 2 and Hurst Farm – Coventry BRMA	2 bed house	£111	£87
	3 bed house	£128	£76
	4 bed house	£171	£94
	Blended capital value		£103
Sites 5, 6, 7 and 8 – Warwickshire BRMA	2 bed house	£150	£128
	3 bed house	£182	£118
	4 bed house	£247	£145
	Blended capital value		£125

5.6 The CLG/HCA '*Affordable Homes Programme 2015-2018: Prospectus'* document clearly states that Registered Providers will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant.

5.7 For shared ownership units, we have assumed that Registered Providers will sell 40% initial equity stakes and charge 2.75% on the retained equity. A 10% charge for management is deducted from the rental income and the net amount is capitalised using a yield of 5%. Based on these assumptions, capital values are as follows:

- Site 1 and Hurst Farm: £2,086 per square metre (£194 per square foot);
- Site 2: £2,035 per square metre (£189 per square foot);
- Sites 5, 6, 7 and 8: £2,247 per square metre (£209 per square foot).

5.8 The Council has also instructed us to consider the impact that replacing the current rented and intermediate housing requirements with 'Starter Homes', which are to be sold at no more than 80% of market value to first time buyers under the age of 40. The price that dwellings may be sold at is subject to a cap of £250,000. We have re-tested our appraisals of the seven sites on assuming that 40% of units are sold as Starter Homes.

Build costs

5.9 We have sourced build costs from the RICS Building Cost Information Service ('BCIS'), which is based on tenders for actual schemes. Base costs for houses are based on 'Estate Housing – 2 storey' which has a mean average cost of £1,003 per square metre including preliminaries but excluding external works (see Appendix 1).

5.10 We have incorporated an allowance of £20,000 per unit for external works and infrastructure (sewers and mains utilities etc) that will be required on greenfield sites.

Professional fees

5.11 In addition to base build costs, schemes will incur professional fees, covering design, valuation, and highways consultants and so on. Our appraisals incorporate a 12% allowance, which is inclusive of promotion costs, site insurances, NHBC warranties and energy performance certificates.

Development finance

5.12 Our appraisals assume that development finance can be secured at a rate of 6%, inclusive of arrangement and exit fees, reflective of current funding conditions.

Marketing costs

5.13 Our appraisals incorporate an allowance of 3% for marketing costs, which includes show homes, agents' fees and sales legal fees. In addition, we have incorporated £800 per unit for sales legal fees.

Section 106 costs

5.14 The Council will need to raise funding for community infrastructure through Section 106 obligations on the major sites. Our appraisals incorporate an allowance of £10,000 per private housing unit to address these requirements which relate mainly to education requirements. Where we have assumed that an on-site school (or schools) will be provided, we have reduced the Section 106 financial contribution from £10,000 to £5,000.

Community Infrastructure Levy ('CIL')

5.15 The Council's draft Charing Schedule indicates that CIL will apply at the following rates to 'Strategic sites allocated in the Local Plan':

- Zone D: sites 1, 2 and Hurst Farm: £110
- Zone C: sites 4, 5, 6 and 8: £70

Development and sales periods

5.16 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 4 private units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 6 to 8 units per month might be expected.

5.17 We have assumed that the larger sites will have more than one outlet, each targeting different markets. The number of sales outlets assumed per site is as follows:

- Sites 1 and 7: 2 sales outlets;
- Site 2 and Hurst Farm: 3 sales outlets;
- Sites 5, 6 and 8: 1 sales outlet.

Developer's profit

5.18 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. In 2007, profit levels were at around 15-17% of development costs. However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major housebuilders will set targets for minimum profit).

5.19 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.

5.20 The near collapse of the global banking system in the final quarter of 2008 is resulting in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks may not allow profit levels to decrease much lower than their current level of 20%.

5.21 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RSL prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring Registered Provider, not by the developer. A reduced profit level on the affordable housing reflects the GLA 'Development Control Toolkit' guidance and Homes and Communities Agency's guidelines in its Development Appraisal Tool.

Exceptional costs

5.22 Exceptional costs can be an issue for development viability on previously developed land. Exceptional costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, in the absence of details site investigations, it is not possible to provide a reliable estimate of what exceptional costs might be. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. In any event, all the additional sites are greenfield sites and will not be adversely affected by previous uses.

Benchmark land values

5.23 Benchmark land values, based on the existing use value or alternative use value of sites are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's existing use value.

5.24 Existing use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Existing use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.

5.25 All the additional sites identified by the Council are in agricultural use, with an existing use value of circa £22,000 per hectare. Whilst agricultural land may trade at this level for on-going agricultural use, it is unlikely that landowners will accept a value at this level if a site is to be developed. Generally, a multiplier of 10 to 15 times the existing use value is applied to this type of site. Research undertaken on behalf of the Department for Communities and Local Government also suggests a range of £247,000 to £370,500 per gross hectare of greenfield land[8]. For agricultural land, we have adopted a benchmark land value of £247,000 per gross hectare. It is important to stress, however, that some landowners may still sell their land even if this benchmark is not achieved.

[8] DCLG '*Cumulative impacts of regulations on house builders and landowners Research paper*' 2011

6 Appraisal results

6.1 This section sets out the results of our appraisals with the residual land values calculated for scenarios with sales values and capital values reflective of market conditions across the District. These RLVs are then compared to appropriate benchmark land values for each site.

6.2 The results of our appraisals are provided in full in Appendix 2 and the appraisals themselves are attached as Appendix 3.

6.3 In the paragraphs below, the appraisal results are summarised in bar chart format which shows the residual values per gross hectare for each scheme at today's values, but also after the application of real growth to sales values. The benchmark land value is shown as a red line on each chart. If the residual values (represented by the bars) exceed the benchmark land value (represented by the red line), then the scheme can be considered viable. If the converse is true, the scheme may not come forward at the current time.

6.4 Our growth assumptions are summarised in Table 6.4.1. This growth is net of the impact of any increases in build costs, so is necessarily set at modest levels in comparison to the growth predicted by Savills (see paragraph 2.14).

Table 6.4.1: Growth assumptions applied

	Growth series 1	Growth series 2	Growth series 3
Growth per annum	2.00%	3.00%	4.00%

6.5 The summary charts for each site are provided below.

Figure 6.5.1: Site 1 – Westwood Heath

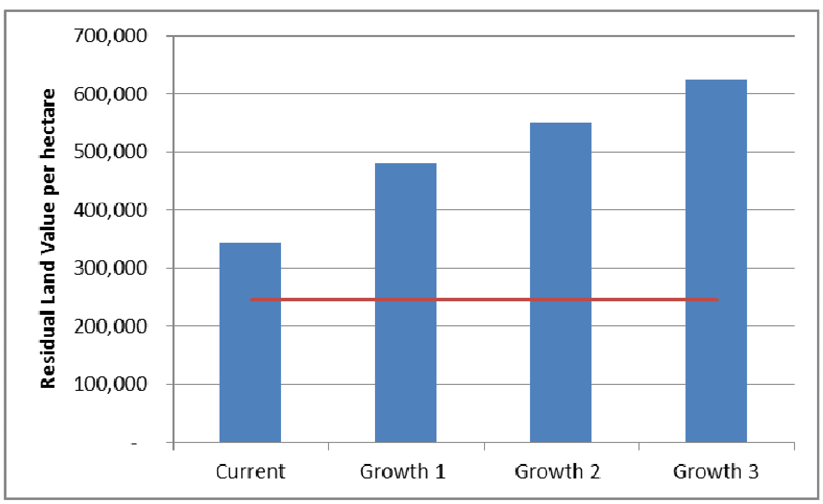


Figure 6.5.2: Site 2 – Kings Hill Lane

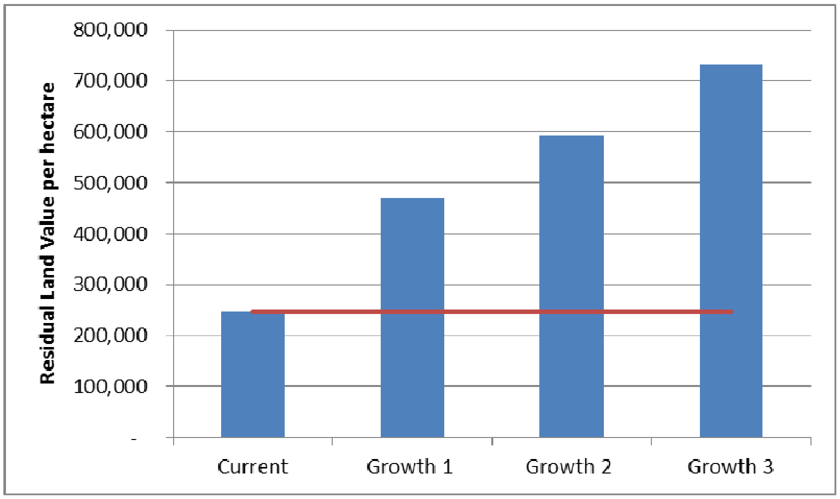


Figure 6.5.3: Site 5 – Crewe Gardens

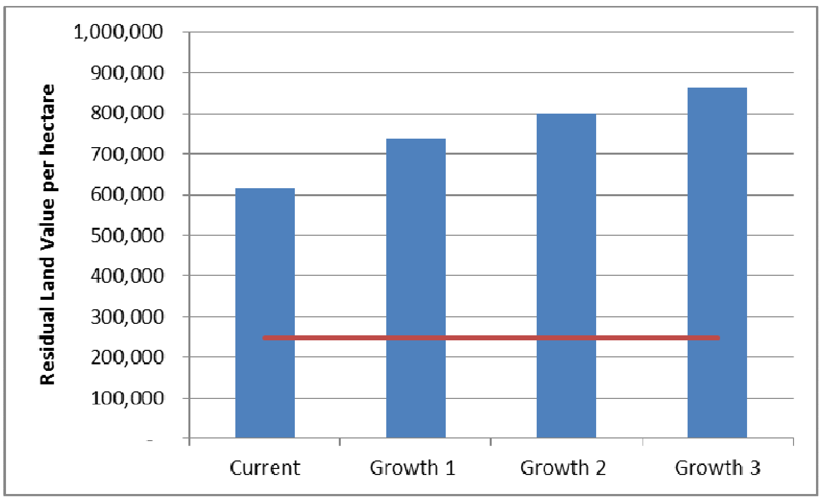


Figure 6.5.4: Site 6 – Woodside Training Centre

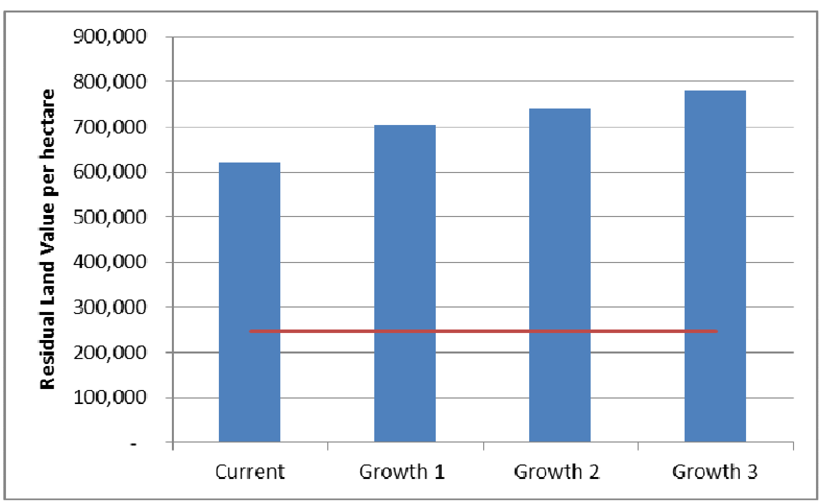
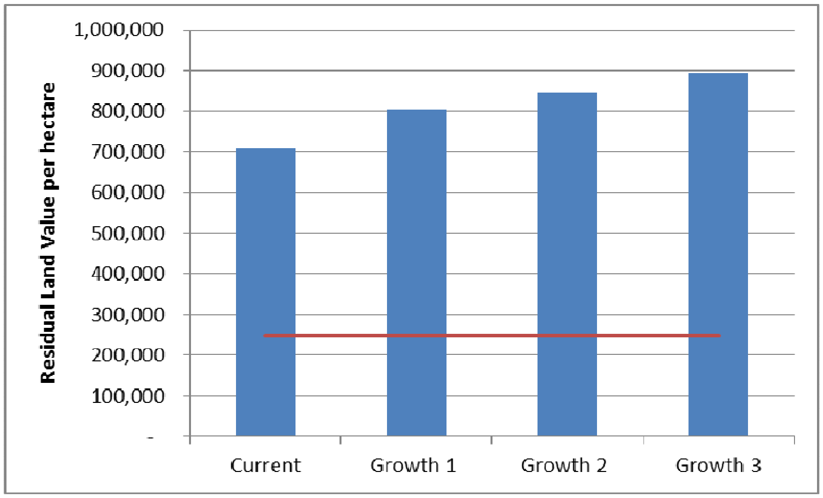


Figure 6.5.4: Site 8 – Land East of Kenilworth Road



6.6 In the charts below, we summarise the residual land values generated by Site 7 and Hurst Farm, on the basis that they come forward in addition to the sites in the preceding paragraphs. We have assumed that these two sites will achieve a slower sales rate (2 per month, with other sites achieving 4 per month), due to the volume of stock being released into the market alongside other sites.

Figure 6.6.1: Site 7 – Kenilworth Golf Course

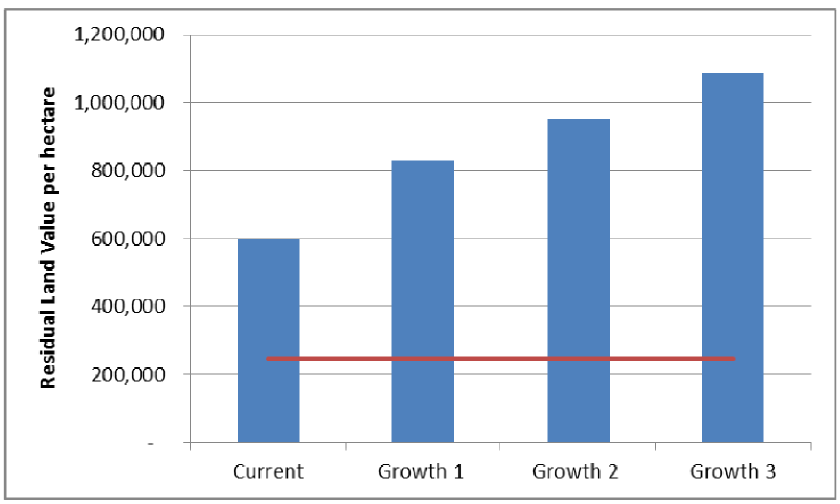
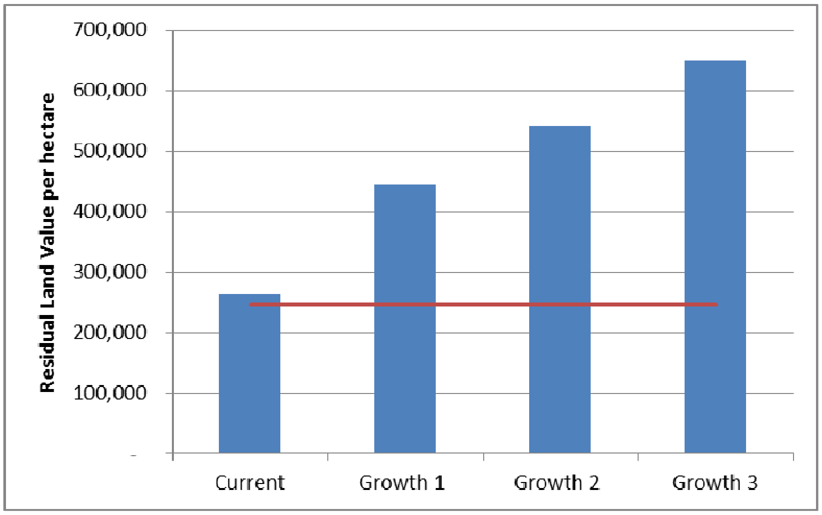


Figure 6.6.2: Hurst Farm



6.7 The results of our appraisals indicate that most of the sites will be able to come forward at current values. However, at current values, the residual land value generated by Hurst Farm is only marginally higher than the benchmark land value. Some flexibility on policy requirements may be required in the short term of the Council wishes to see early delivery on this site. Kings Hill Lane generates a residual land value which is just at the benchmark land value; there may be a need for flexible application of policy requirements on this site if abnormal or other costs arise.

6.8 When value growth is applied, both Hurst Farm and Kings Mill Lane generate residual land values that exceed the benchmark land value. It is likely, therefore, that the developers bidding for these sites will take a view on the potential for growth in their offers to the landowners.

Impact of Starter Homes

6.9 The Council wishes to understand that potential impact on viability of securing Starter Homes on the sites in place of its current affordable housing requirement. We have re-run all our appraisals assuming that 40% of units are provided at a 20% discount to market value, subject to an overall cap of £250,000 per unit. The results are summarised in Table 6.9.

Table 6.9: Affordable housing replaced by Starter Homes (£ millions)

Site	Residual – with traditional affordable	Residual – with Starter Homes	Increase in residual land value
1 – Westwood Heath	18.15	42.36	+24.21
2 – Kings Hill Lane	66.71	149.68	+82.97
5 – Crewe Gardens	11.69	19.78	+8.09
6 – Woodside Training	4.03	7.05	+3.02
7 – Kenilworth Golf Course	33.05	51.27	+18.22
8 – Land E of Kenilworth Rd	4.03	7.15	+3.12
Hurst Farm	28.26	60.55	+32.29

Delivery assessment – Kings Hill Lane

6.10 The Kings Hill Lane site will deliver a total of 4,000 units. The Council anticipates that 2,100 of these units will be delivered over the plan period (i.e. the next 12.5 years after allowing for a period re-adoption of the plan), which equates to delivery of 140 units per annum. After removing the affordable housing, this equates to 84 private units per annum, or 7 units per month.

6.11 Assuming that the landowners work up a planning application in anticipation of the plan being adopted by the end of 2016 and planning is granted shortly afterwards, enabling works could commence by summer 2017. The first units would be completed by the end of 2018. Given the scale of the site, it is likely that there would be two to three sales outlets operating at any one time, so each outlet would need to sell 2.3 to 3.5 units per month to deliver in line with the Council's estimated timescale.

6.12 The market is currently absorbing 7 to 8 units per month on major sites. The Council's assumption of 2,100 over the remainder of the plan period (from 2018 to 2029) would require delivery of 9.5 units per month (after removing the affordable housing at 40%). Before 2007, developments were delivering up to 10 units per month, and at this rate of delivery, the Council's assumption is reasonable. However, it is possible that the Development would be constructed over several market cycles during which delivery rates would fall. Furthermore, increasing delivery back up to 9 to 10 units per month in the current market will depend on improvements in the ratio of house prices to earnings, which are still proving difficult for some first time buyers. The best case scenario, therefore, is that the Development could deliver 2,200 units over the remainder of the plan period (1,320 private units and 880 affordable units), assuming consistent delivery of 10 units per month over the 11 years from start of construction.

Table 6.12.1: Indicative timescales for delivery

Activity	Start	End
Pre-planning	Jan 2016	Dec 2016
Planning permission	Jan 2017	Feb 2016
Marketing site, enabling works, reserved matters and discharge of conditions	Mar 2017	Dec 2017
Construction	Jan 2018	Dec 2043
Sales	Jan 2019	Dec 2044

6.13 Branding and place making will be of key importance in promoting the site as a location where buyers will be keen to secure a property. With significant sites coming forward in the District alongside Kings Hill Lane, it will be important for the developers to promote the site to a wider market to ensure that demand is not coming solely from within the District. It will be important to ensure that this site has its own identity and is not simply an extension to Coventry to ensure as wide an interest as possible.

6.14 If the Council were to seek the provision of Starter Homes in place of its 'traditional' affordable housing tenures of rented and shared ownership, there would be a significant increase in the residual land value generated by the development. This might act as an incentive to the owners of the site to release land for development at a faster rate than might otherwise have been the case. However, the Council will need to be mindful that this change would release a significant amount of housing stock for sale, some of which would then be competing for the same buyers who might otherwise have bought a market unit.

6.15 It is important to note that developers will slow down delivery of units when house prices are anticipated or begin to fall, so there is not excess unsold stock available. There may therefore be periods when the sales rate falls below the 7 to 8 referred to above. The Council could stimulate development during these periods by providing low cost funding to developers for the provision of site infrastructure, with the requirement that they continue to build at an agree rate during a recession. Funds would be repayable to the Council when demand increases and 'normal' market conditions return.

Delivery assessment – other sites

6.16 The UK housing market is characterised by a significant imbalance between demand and supply, with demand far outstripping supply. In 'normal' markets, the result would be an increase in prices, followed by an increase in supply in response. However, the housing market has experienced a period of 'shake-out' with many smaller developers leaving the market and significant barriers to entry for potential new entrants. This has concentrated delivery in the major PLC housebuilders, who themselves are not sufficiently resourced to generate a step-change in supply.

6.17 Recent government measures to intervene in the housing market have focused on the demand side, primarily in the form of subsidies or low cost finance to potential buyers.

6.18 The 'Help to Buy' initiative has been very effective at increasing demand for housing and has proved to be very popular among buyers. Although commentators have observed that the programme may have inflated demand to unsustainable levels in London, the same is not said of housing markets in the West Midlands. Although changes may be made to eligibility criteria in London, there is limited risk that the programme will be withdrawn or restricted in the West Midlands region. This will help to support house prices during the period over which household incomes increase to improve affordability ratios.

6.19 Here the Government offers to the lenders the option to purchase a Government Guarantee that in effect removes risk from higher loan to value lending. The Government agrees to compensate lenders if there is default covering the risk on a top slice of the mortgage. Importantly it applies to much higher value home transactions up to £600,000 running for 3 years from the start of 2014 for both the new homes and the second hand market. Crucially this will enable greater flow of transactions in the higher value end of the market which has been very slow within the larger sites recently. It is expected to allow greater opportunity for those already in the housing market to trade up as well as new joiners to buy. As has been evidenced with other Government backed products this investment will likely act as a stimulus creating a positive effect on new homes take up across the range of housing types. The initial 'Help to Buy' shared equity scheme for first time buyers is already up and running with up to 20% of the cost of the home funded by a shared equity loan through the Government, and interest free for the first five years. It is no coincidence that the national house builders have been preparing for this change, now bringing their larger sites forward.

6.20 Clearly, the Council cannot compel the market to deliver housing and the market will not do so if its judgement is that units cannot be sold within a reasonable timeframe or at a price that generates a competitive return. Similarly, the Council cannot control external factors (the economy; interest rates etc). The housing market is cyclical and over the plan period, it is possible that there will be two or more market cycles. However, rate of delivery reflects current conditions and rates of sale, which are lower than those achieved prior to the last housing market recession. It is therefore possible that rates of sale could accelerate, but we would recommend that the Council does not rely upon this possibility.

6.21 If sites 4, 5, 6 and 7 are allocated alongside the sites in the existing Local Plan, as well as Site 2, the market will make periodic judgements as to whether there is sufficient effective demand to absorb the quantum of new stock brought forward. Clearly, if too many sites are brought forward for development at the same time, there would be a risk that new stock would flood the market and there would potentially be an insufficient number of buyers with funds to purchase the units. If developers of individual sites consider that demand is insufficient, they will slow delivery. This is clearly a factor that the Council cannot seek to control.

6.22 Developers of sites which are relatively close together will typically seek to differentiate their product from other sites to ensure that they are not competing for the same type of purchasers. However, clearly there are limits to the effectiveness of product differentiation if too much product is placed into the market at the same time.

Demand for housing in Warwick District

6.23 The Council's Strategic Housing Market Assessment (2012) and addendum (2014) indicate that housing need amounts to between 606 to 720 units per annum over the plan period. However, we understand that this makes no account of unmet need emanating from Coventry, which could push demand even higher.

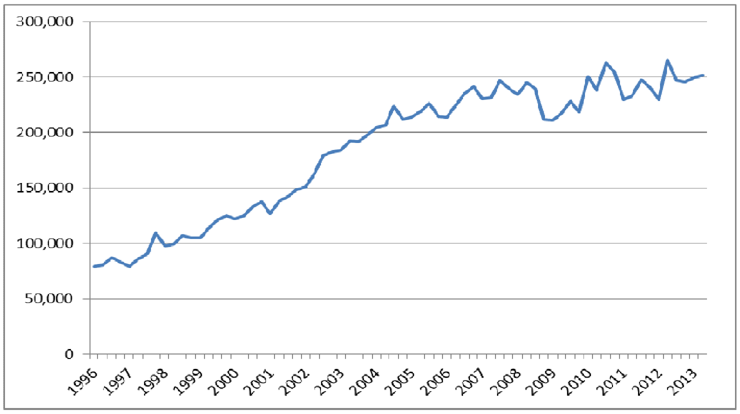
6.24 A key question in determining housing delivery will be the extent to which the households identified above can exercise 'effective' demand, i.e. the ability to purchase properties at the prices determined by the market. If only a small number of the identified households can access sufficient funding to purchase, then developers will only supply a sufficient number of new properties for those households.

6.25 Average (median) incomes in Warwick District were £23,690. For a two person household, income would be £47,379. Assuming an income multiple of five, this would suggest that the average household could purchase a property valued at £236,895, assuming no deposit.

6.26 Figure 6.25.1 summarises the mean average house price in the District. The average house price in quarter 2 of 2013 was in the region of £251,000. After adding deposits, it is therefore likely that households on average incomes would be able to access housing in the District.

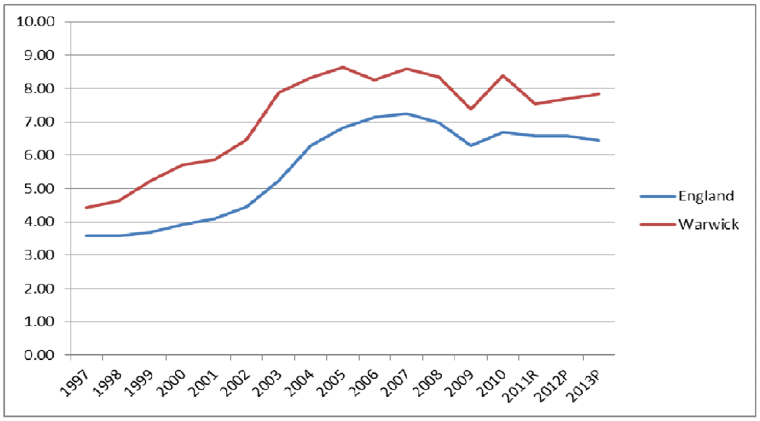
6.27 Figure 6.26.1 shows the trend in ratio of lower quartile house prices to lower quartile earnings. After increasing year-on-year from 1997 onwards, affordability began to improve from 2006. This improvement is likely to result in pent-up demand translating into effective demand.

Figure 6.25.1: Mean average house price based on Land Registry Data



Source: Communities and Local Government Live tables no 581

Figure 6.26.1: Ratio of lower quartile house prices to lower quartile earnings

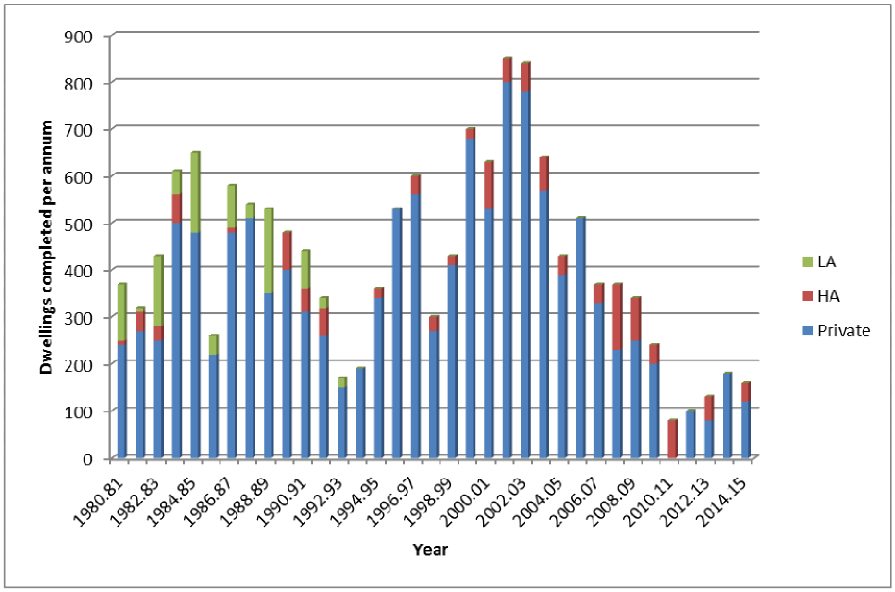


Source: Communities and Local Government live tables no 576

Supply of housing in Warwick District

6.28 The Council has already allocated sites that will generate 6,319 units, as summarised in Table 4.5.1. With the 5,725 units on the additional sites (assuming 2,100 of the 4,000 on Kings Hill are delivered over the plan period), this would equate to 963 units per annum over the remaining 12.5 years of the plan period. However, if the affordable housing units are removed (assuming all sites deliver 40% affordable housing), there would be 578 private units per annum. As shown in Figure 6.23.1, the market in Warwick District has absorbed a similar quantum of private units in 1996/97, 1999/2000, 2001/02, 2002/03, 2003/04. However, completions after 2003/04 have been falling and have not exceeded 180 units per annum in the last five years.

Figure 6.23.1: Housing Completions in Warwick District 1980 - 2015



Source: Communities and Local Government – Live tables No 253 'Permanent dwellings started and completed, by tenure and district

6.29 In this context, the only element of the development process that is within the Council's control is development management. In order to maximise the prospects of sites delivering units within the identified timescales, the Council will need to process planning applications expeditiously, including completing Section 106 agreements. However, the rate of build out of allocated sites is firmly within the control of the development industry, which in turn will be influenced by availability of funding; demand; affordability; and macro-economic factors.

6.30 Given that housing completions have been lower over the last five years than during the previous twenty year period, it is reasonable to assume that there is significant pent-up demand. However, turning that pent-up supply into transactions of units is highly dependent on affordability. The various government initiatives to assist first time buyers and households seeking to move up the ladder will assist.

6.31 As noted in paragraph 6.13 above, the Council could incentivise land sales by converting the 40% affordable housing requirement to Starter Homes. However, while this might result in an accelerating rate of land sales, this does not necessarily translate into delivery of units if market conditions are such that new stock cannot be readily absorbed.

7 Conclusions

7.1 This report tests the viability of seven strategic sites that the Council proposes to allocate in a revision to the submission version of its Local Plan, following concerns with housing land supply raised by the Inspector.

7.2 All seven sites generate residual land values which are, in our judgement, sufficient to incentivise the release of the sites for development. Our assessment takes account of the Council's requirement for 40% affordable housing, which we have modelled adopting a tenure split of 80% rented and 20% intermediate.

7.3 If the land values generated by the developments are judged to be insufficient by some landowners, a significant increase could be achieved by converting the affordable housing to Starter Homes, to be sold at a 20% discount to market value and subject to a £250,000 cap. The Council will need to consider the delivery route for any Starter Home units, as they could be perceived as competing for buyers with private housing and thus increase a developer's appetite to maintain delivery rates.

7.4 We have reviewed the delivery timescale for the Kings Hill Lane site and in our opinion, the Council's assumption of delivery of 2,100 units (out of a total of 4,000) over the plan period is possible. While the sales rate may increase from current levels assumed of circa 7-8 per month, this site is likely to be delivered over several market cycles, with periods when sales rates are lower. This would then extend the delivery of the first 2,100 units over a longer period.

7.5 Taking all the allocated sites together, there has been a significant undersupply of new housing over the last five years, so there is potential for the market to absorb a significant amount of stock over the next five years. To an extent, sites being brought forward at the same time as others should not be an issue. However, developers will only supply the number of units that they consider that the market can absorb and if demand is perceived to be slowing, then they will slow delivery. In this regard, the market is self-regulating and there is little the Council can do to ensure that sites are delivered to certain timescales.

7.6 A flexible approach to the application of affordable housing targets will ensure the viability of developments over the economic cycle.

7.7 Markets are inherently cyclical and there is no guarantee that developers will build out sites that secure planning permission within the timescales that the Council anticipates. Clearly the Council controls development management powers, which it could apply expeditiously to ensure that sites are ready for when developers perceive demand to be sufficiently high to proceed.

Appendix 1 - BCIS costs

BCIS®

RICS®

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 28-Nov-2015 12:20

› Rebased to Warwick (100; sample 38)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
Housing, mixed developments (15)	1,063	513	911	1,034	1,180	2,304	961
Estate housing							
Generally (15)	1,024	499	877	1,000	1,128	2,138	1759
Single storey (15)	1,126	595	965	1,095	1,287	1,929	285
2-storey (15)	1,003	499	870	981	1,100	2,037	1342
3-storey (15)	1,024	661	834	973	1,153	2,138	131
4-storey or above (25)	1,489	1,136	-	1,357	-	1,973	3
Estate housing detached (15)	1,096	804	913	1,126	1,233	1,387	16
Estate housing semi detached							
Generally (15)	1,022	526	880	999	1,120	1,929	401
Single storey (15)	1,173	707	992	1,153	1,332	1,929	65
2-storey (15)	994	526	877	982	1,095	1,766	317
3-storey (15)	964	703	789	962	1,040	1,519	19
Estate housing terraced							
Generally (15)	1,043	512	873	1,004	1,158	2,138	387
Single storey (15)	1,115	674	924	1,041	1,320	1,742	54
2-storey (15)	1,032	512	872	1,000	1,148	2,037	276
3-storey (15)	1,028	676	832	961	1,082	2,138	57
Flats (apartments)							
Generally (15)	1,242	599	1,030	1,188	1,410	4,263	794
1-2 storey (15)	1,158	695	994	1,128	1,283	2,253	188
3-5 storey (15)	1,223	599	1,026	1,184	1,402	2,482	529
6+ storey (15)	1,594	904	1,272	1,533	1,702	4,263	73

Appendix 2 - Appraisal results

WARWICK DISTRICT COUNCIL - ADDITIONAL STRATEGIC SITES VIABILITY TESTING

						Residual Land Values				Residual Land Values (per hectare)			
Site	Location	Size (ha)	Units	Units per gross ha	Existing use	Current	Growth 1	Growth 2	Growth 3	Current	Growth 1	Growth 2	Growth 3
1 - Westwood Heath	Edge of Coventry	52.96	850	16	Agricultural	18,147,677	25,521,394	29,167,834	33,106,615	342,668	481,899	550,752	625,125
2 - Kings Hill Lane	Edge of Coventry	269.2	4000	15	Agricultural	66,713,299	126,134,682	159,410,308	196,848,321	247,821	468,554	592,163	731,234
5 - Crewe Gdns	Kenilworth - east	19.01	300	16	Agricultural	11,687,033	14,057,408	15,196,613	16,427,942	614,783	739,474	799,401	864,174
6 - Woodside Training Centre	Kenilworth - east	6.5	100	15	Agricultural	4,033,314	4,566,150	4,805,419	5,068,576	620,510	702,485	739,295	779,781
7 - Kenilworth Golf Club	Kenilworth - east	51.04	875	17	Amenity land	33,054,453	41,355,601	45,472,410	49,919,110	647,619	810,259	890,917	978,039
8 - Land E of Kenilworth Rd	Kenilworth - south	5.68	100	18	Agricultural	4,033,314	4,566,150	4,805,119	5,068,576	710,090	803,900	845,972	892,355
Hurst Farm	Edge of Coventry	99.9	1400	14	Agricultural	28,262,424	40,963,819	47,295,563	54,136,473	282,907	410,048	473,429	541,907

All appraisals incorporate the following policy assumptions:

40% affordable housing

£10,000 per unit S106 applied to all units. If schools provided on site, S106 reduced to £5,000 per unit

Appendix 3 - Development appraisals (current values)

Site 1 - Westwood Heath
850 units

Summary Appraisal for Phase 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Private houses	48,450.00	£3,050.00	147,772,500	
Aff Rent	25,840.00	£1,109.00	28,656,560	
Intermediate	6,460.00	£2,086.00	13,475,560	
Totals	80,750.00		189,904,620	**189,904,620**
NET REALISATION				**189,904,620**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (19.01 Ha £954,638.43 pHect)			18,147,677	
Stamp Duty		4.00%	725,907	
Agent Fee		1.00%	181,477	
Legal Fee		0.80%	145,181	
				19,200,242
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Private houses	48,450.00	£1,003.00	48,595,350	
Aff Rent	25,840.00	£1,003.00	25,917,520	
Intermediate	6,460.00	£1,003.00	6,479,380	
Totals	80,750.00		80,992,250	**80,992,250**
Developers Contingency		5.00%	4,899,613	
Statutory/LA	850.00 units	5,000.00 /un	4,250,000	
CIL	48,450.00 m²	110.00 pm²	5,329,500	
Primary School			5,000,000	
				19,479,113
Other Construction				
Infrastructure & externals	850.00 units	20,000.00 /un	17,000,000	
				17,000,000
PROFESSIONAL FEES				
Professional fees		12.00%	9,719,070	
				9,719,070
MARKETING & LETTING				
Marketing		3.00%	4,433,175	
				4,433,175
DISPOSAL FEES				
Sales Legal Fee	510.00 units	800.00 /un	408,000	
				408,000
MISCELLANEOUS FEES				
Profit on private		20.00%	29,554,500	
Profit on affordable		6.00%	2,527,927	
				32,082,427
FINANCE				
Debit Rate 6.00% Credit Rate 1.00% (Nominal)				
Land			2,426,784	
Construction			829,492	
Other			3,334,067	
Total Finance Cost				6,590,342
TOTAL COSTS				**189,904,619**
PROFIT				
				1
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
		6.11%		
Profit Erosion (finance rate 6.000%)		0 yrs 0 mths		

APPRAISAL SUMMARY	BNP PARIBAS REAL ESTATE

Site 2 Kings Hill Lane
4,000 units

Summary Appraisal for Phase 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Private houses	228,000.00	£2,975.00	678,300,000	
Aff Rent	121,600.00	£1,109.00	134,854,400	
Intermediate	30,400.00	£2,035.00	61,864,000	
Totals	380,000.00		875,018,400	**875,018,400**
NET REALISATION				**875,018,400**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (269.20 Ha £247,820.57 pHect)			66,713,299	
Stamp Duty		4.00%	2,668,532	
Agent Fee		1.00%	667,133	
Legal Fee		0.80%	533,706	
				70,582,670
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Private houses	228,000.00	£1,003.00	228,684,000	
Aff Rent	121,600.00	£1,003.00	121,964,800	
Intermediate	30,400.00	£1,003.00	30,491,200	
Totals	380,000.00		381,140,000	**381,140,000**
Developers Contingency		5.00%	23,057,000	
Statutory/LA	4,000.00 units	5,000.00 /un	20,000,000	
CIL	228,000.00 m²	110.00 pm²	25,080,000	
4 x primary & 1 x secondary school			28,000,000	
				96,137,000
Other Construction				
Infrastructure & externals	4,000.00 units	20,000.00 /un	80,000,000	
				80,000,000
PROFESSIONAL FEES				
Professional fees		12.00%	45,736,800	
				45,736,800
MARKETING & LETTING				
Marketing		3.00%	20,349,000	
				20,349,000
DISPOSAL FEES				
Sales Legal Fee	2,400.00 units	800.00 /un	1,920,000	
				1,920,000
MISCELLANEOUS FEES				
Profit on private		20.00%	135,660,000	
Profit on affordable		6.00%	11,803,104	
				147,463,104
FINANCE				
Debit Rate 6.00% Credit Rate 1.00% (Nominal)				
Land			39,902,698	
Construction			(5,101,731)	
Other			(3,111,142)	
Total Finance Cost				31,689,825
TOTAL COSTS				**875,018,399**
PROFIT				
				1
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
		6.97%		
Profit Erosion (finance rate 6.000%)		0 yrs 0 mths		

Site 5 Crewe Gardens
300 units

Summary Appraisal for Phase 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Private houses	17,100.00	£3,285.00	56,173,500	
Aff Rent	9,120.00	£1,346.00	12,275,520	
Intermediate	2,280.00	£2,247.00	5,123,160	
Totals	28,500.00		73,572,180	**73,572,180**
NET REALISATION				**73,572,180**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (19.01 Ha £614,783.45 pHect)			11,687,033	
Stamp Duty		4.00%	467,481	
Agent Fee		1.00%	116,870	
Legal Fee		0.80%	93,496	
				12,364,881
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Private houses	17,100.00	£1,003.00	17,151,300	
Aff Rent	9,120.00	£1,003.00	9,147,360	
Intermediate	2,280.00	£1,003.00	2,286,840	
Totals	28,500.00		28,585,500	**28,585,500**
Developers Contingency		5.00%	1,729,275	
Statutory/LA	300.00 units	10,000.00 /un	3,000,000	
CIL	17,100.00 m²	70.00 pm²	1,197,000	
Primary School			1	
				5,926,276
Other Construction				
Infrastructure & externals	300.00 units	20,000.00 /un	6,000,000	
				6,000,000
PROFESSIONAL FEES				
Professional fees		12.00%	3,430,260	
				3,430,260
MARKETING & LETTING				
Marketing		3.00%	1,685,205	
				1,685,205
DISPOSAL FEES				
Sales Legal Fee	180.00 units	800.00 /un	144,000	
				144,000
MISCELLANEOUS FEES				
Profit on private		20.00%	11,234,700	
Profit on affordable		6.00%	1,043,921	
				12,278,621
FINANCE				
Debit Rate 6.00% Credit Rate 1.00% (Nominal)				
Land			310,977	
Other			2,846,459	
Total Finance Cost				3,157,436
TOTAL COSTS				**73,572,179**
PROFIT				
				1
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
		5.95%		
Profit Erosion (finance rate 6.000%)		0 yrs 0 mths		

Site 6 - Woodside Training Centre
100 units

Summary Appraisal for Phase 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Private houses	5,700.00	£3,285.00	18,724,500	
Aff Rent	3,040.00	£1,346.00	4,091,840	
Intermediate	760.00	£2,247.00	1,707,720	
Totals	9,500.00		24,524,060	**24,524,060**
NET REALISATION				**24,524,060**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (6.50 Ha £620,509.92 pHect)			4,033,314	
Stamp Duty		4.00%	161,333	
Agent Fee		1.00%	40,333	
Legal Fee		0.80%	32,267	
				4,267,247
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Private houses	5,700.00	£1,003.00	5,717,100	
Aff Rent	3,040.00	£1,003.00	3,049,120	
Intermediate	760.00	£1,003.00	762,280	
Totals	9,500.00		9,528,500	**9,528,500**
Developers Contingency		5.00%	576,425	
Statutory/LA	100.00 units	10,000.00 /un	1,000,000	
CIL	5,700.00 m²	70.00 pm²	399,000	
				1,975,425
Other Construction				
Infrastructure & externals	100.00 units	20,000.00 /un	2,000,000	
				2,000,000
PROFESSIONAL FEES				
Professional fees		12.00%	1,143,420	
				1,143,420
MARKETING & LETTING				
Marketing		3.00%	561,735	
				561,735
DISPOSAL FEES				
Sales Legal Fee	60.00 units	800.00 /un	48,000	
				48,000
MISCELLANEOUS FEES				
Profit on private		20.00%	3,744,900	
Profit on affordable		6.00%	347,974	
				4,092,874
FINANCE				
Debit Rate 6.00% Credit Rate 1.00% (Nominal)				
Land			374,076	
Construction			187,596	
Other			345,187	
Total Finance Cost				906,859
TOTAL COSTS				**24,524,059**
PROFIT				
				1
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
		5.63%		
Profit Erosion (finance rate 6.000%)		0 yrs 0 mths		

Site 7 - Kenilworth Golf Club
875 units

Summary Appraisal for Phase 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Private houses	49,875.00	£3,285.00	163,839,375	
Aff Rent	26,600.00	£1,346.00	35,803,600	
Intermediate	6,650.00	£2,247.00	14,942,550	
Totals	83,125.00		214,585,525	**214,585,525**
NET REALISATION				**214,585,525**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (51.04 Ha £597,456.99 pHect)			30,494,205	
Stamp Duty		4.00%	1,219,768	
Agent Fee		1.00%	304,942	
Legal Fee		0.80%	243,954	
				32,262,869
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Private houses	49,875.00	£1,003.00	50,024,625	
Aff Rent	26,600.00	£1,003.00	26,679,800	
Intermediate	6,650.00	£1,003.00	6,669,950	
Totals	83,125.00		83,374,375	**83,374,375**
Developers Contingency		5.00%	5,043,719	
Statutory/LA	875.00 units	5,000.00 /un	4,375,000	
CIL	49,875.00 m²	70.00 pm²	3,491,250	
Primary School			5,000,000	
				17,909,969
Other Construction				
Infrastructure & externals	875.00 units	20,000.00 /un	17,500,000	
				17,500,000
PROFESSIONAL FEES				
Professional fees		12.00%	10,004,925	
				10,004,925
MARKETING & LETTING				
Marketing		3.00%	4,915,181	
				4,915,181
DISPOSAL FEES				
Sales Legal Fee	525.00 units	800.00 /un	420,000	
				420,000
MISCELLANEOUS FEES				
Profit on private		20.00%	32,767,875	
Profit on affordable		6.00%	3,044,769	
				35,812,644
FINANCE				
Debit Rate 6.00% Credit Rate 1.00% (Nominal)				
Land			12,591,246	
Construction			(478,748)	
Other			273,064	
Total Finance Cost				12,385,561
TOTAL COSTS				**214,585,524**
PROFIT				
				1
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
		6.43%		
Profit Erosion (finance rate 6.000%)		0 yrs 0 mths		

Site 8 - Land E of Kenilworth Road
100 units

Summary Appraisal for Phase 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Private houses	5,700.00	£3,285.00	18,724,500	
Aff Rent	3,040.00	£1,346.00	4,091,840	
Intermediate	760.00	£2,247.00	1,707,720	
Totals	9,500.00		24,524,060	**24,524,060**
NET REALISATION				**24,524,060**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (5.68 Ha £710,090.57 pHect)			4,033,314	
Stamp Duty		4.00%	161,333	
Agent Fee		1.00%	40,333	
Legal Fee		0.80%	32,267	
				4,267,247
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Private houses	5,700.00	£1,003.00	5,717,100	
Aff Rent	3,040.00	£1,003.00	3,049,120	
Intermediate	760.00	£1,003.00	762,280	
Totals	9,500.00		9,528,500	**9,528,500**
Developers Contingency		5.00%	576,425	
Statutory/LA	100.00 units	10,000.00 /un	1,000,000	
CIL	5,700.00 m²	70.00 pm²	399,000	
				1,975,425
Other Construction				
Infrastructure & externals	100.00 units	20,000.00 /un	2,000,000	
				2,000,000
PROFESSIONAL FEES				
Professional fees		12.00%	1,143,420	
				1,143,420
MARKETING & LETTING				
Marketing		3.00%	561,735	
				561,735
DISPOSAL FEES				
Sales Legal Fee	60.00 units	800.00 /un	48,000	
				48,000
MISCELLANEOUS FEES				
Profit on private		20.00%	3,744,900	
Profit on affordable		6.00%	347,974	
				4,092,874
FINANCE				
Debit Rate 6.00% Credit Rate 1.00% (Nominal)				
Land			374,076	
Construction			187,596	
Other			345,187	
Total Finance Cost				906,859
TOTAL COSTS				**24,524,059**
PROFIT				
				1
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
		5.63%		
Profit Erosion (finance rate 6.000%)		0 yrs 0 mths		

Hust Farm
1,400 units

Summary Appraisal for Phase 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Private houses	79,800.00	£3,050.00	243,390,000	
Aff Rent	42,560.00	£1,109.00	47,199,040	
Intermediate	10,640.00	£2,086.00	22,195,040	
Totals	133,000.00		312,784,080	**312,784,080**
NET REALISATION				**312,784,080**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (99.90 Ha £263,914.78 pHect)			26,365,086	
Stamp Duty		4.00%	1,054,603	
Agent Fee		1.00%	263,651	
Legal Fee		0.80%	210,921	
				27,894,261
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Private houses	79,800.00	£1,003.00	80,039,400	
Aff Rent	42,560.00	£1,003.00	42,687,680	
Intermediate	10,640.00	£1,003.00	10,671,920	
Totals	133,000.00		133,399,000	**133,399,000**
Developers Contingency		5.00%	8,069,950	
Statutory/LA	1,400.00 units	5,000.00 /un	7,000,000	
CIL	79,800.00 m²	110.00 pm²	8,778,000	
Primary School x 2			10,000,000	
				33,847,950
Other Construction				
Infrastructure & externals	1,400.00 units	20,000.00 /un	28,000,000	
				28,000,000
PROFESSIONAL FEES				
Professional fees		12.00%	16,007,880	
				16,007,880
MARKETING & LETTING				
Marketing		3.00%	7,301,700	
				7,301,700
DISPOSAL FEES				
Sales Legal Fee	840.00 units	800.00 /un	672,000	
				672,000
MISCELLANEOUS FEES				
Profit on private		20.00%	48,678,000	
Profit on affordable		6.00%	4,163,645	
				52,841,645
FINANCE				
Debit Rate 6.00% Credit Rate 1.00% (Nominal)				
Land			12,527,371	
Construction			603,373	
Other			(311,101)	
Total Finance Cost				12,819,643
TOTAL COSTS				**312,784,079**
PROFIT				
				1
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
		6.64%		
Profit Erosion (finance rate 6.000%)		0 yrs 0 mths		