



# Warwick District Council NZC DPD Examination Matter 3: Viability testing and assessment

Warwick District Council  
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## 1 Question 3.1:

**Does the viability testing, assessment and evidence submitted in support of the DPD reasonably and robustly demonstrate that the majority of development types in the majority of locations are viable when meeting all of the requirements of the Plan, including the adopted Warwick Local Plan?**

- 1.1 Developments generate a finite amount of value above existing use value, the extent of which varies between development scenarios (the sales values achieved; the type of development; and the underlying existing use value). Warwick District is relatively diverse in terms of all these factors, so it is unlikely that policies can be set at a level that would be universally viable in all development scenarios. Local Plan policy DM2 recognises this issue by acknowledging that policies may sometimes need to be applied flexibly where full application would render a development proposal unviable.
- 1.2 In considering the outputs of the Viability Study [SUB 6], it is important to draw a distinction between scenarios which are unviable with the full extent of the adopted Warwick Local Plan policies applied, and those which were able to viably deliver adopted plan policies but become unviable when the emerging DPD policies are applied. In the main, the schemes/scenarios which are unviable when applying the DPD policies were already unviable and therefore already unlikely to come forward. It is not the DPD policies that make these schemes unviable.
- 1.3 The cost uplift associated with the emerging DPD policies is relatively modest (equating to 3% of construction costs) and this should be readily absorbed in most cases.
- 1.4 The Viability Study [SUB6] indicates that most schemes across the District will generate viable outcomes alongside the requirement in adopted Local Plan Policy H2 for 40% affordable housing.
- 1.5 However, in a relatively small number of cases (mostly flatted developments), the DPD policy is not viable when combined with the full 40% affordable housing requirement. In these cases, the emerging DPD makes provision for flexible application of the policies and as indicated in 1.1, Policy DM2 of the Local Plan already acknowledges the need for a flexible approach.

## 2 Question 3.2:

Has the viability evidence submitted accounted for a reasonable and proportionate level of flexibility in the delivery of the policy requirements of the DPD and, if so, is this justified and effective?

- 2.1 The Viability Study [SUB6] adopts an approach in which emerging policies are 'switched on' and applied in combination with other Local Plan policies. The combined impact of these policies on the residual land value generated by each typology/scenario is then reported in the study as being greater than or lower than the benchmark land value. In this regard, the Viability Study does not apply any flexibility in how the policies are applied; the outcome of full application is simply reported.
- 2.2 In practical application of the emerging DPD policies, the mechanistic approach adopted in the Viability Study would not be applied to individual schemes submitted to the Local Planning Authority. As noted in response to the Inspector's Question 3.4, officers may need to weigh trade-offs between policies where schemes are on the margins of viability. The emerging DPD makes clear provision for flexible application to schemes where there is a proven viability issue.
- 2.3 As noted in the Council's response to the Inspector's Question 3.3, the extent to which a flexible approach to the application of the emerging DPD policies is likely to be limited, given the relatively modest cost of the emerging policies.

### 3 Question 3.3:

#### How does development viability in relation to the policy requirements of the DPD sit against the policy requirements of the adopted Warwick Local Plan, for example affordable housing requirements?

- 3.1 The affordable housing requirements of Policy H2 of the Local Plan require that development proposals incorporating 11 or more residential units should incorporate 40% affordable housing typically provided as 70% social rent and 30% shared ownership. Affordable housing is the most significant Local Plan policy requirement in terms of its cost impact.
- 3.2 To set the emerging DPD policies in context, the impact the affordable housing requirement has on the residual land value of a 200 unit housing scheme is as follows:
- Residual land value (no affordable housing): £20.85 million;
  - Residual land value (40% affordable housing): £10.23 million;
  - Impact = £10.63 million (49% reduction)
- 3.3 In contrast, the impact of the emerging DPD policy (which as noted results in a 3% cost impact) is as follows:
- Residual land value (no affordable housing, no DPD policies applied): £20.85 million
  - Residual land value (no affordable housing, DPD policies applied): £20.04 million
  - Impact = £0.81 million (3.8% reduction)
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- Residual land value (40% affordable housing, no DPD policies applied): £10.23 million
  - Residual land value (40% affordable housing, DPD policies applied): £9.41 million
  - Impact = £0.81 million (7.9% reduction)
- 3.4 As noted in the response to the Inspector's Question 3.4, Policy DM2 of the adopted Local Plan makes provision for policies to be applied flexibly where there is a proven viability issue on an application. If (all other things being equal) it were not possible for the cost of the emerging DPD policy to be absorbed through a reduction in land value, officers would need to weigh competing policy objectives. However, it is important to consider the emerging policy in the wider context of the development economics of schemes in the District.
- 3.5 The cost of meeting the emerging DPD policies could be fully mitigated through one of the following changes to the application of policy H2.
- 3.6 A change in affordable housing tenure from 70% rented and 30% shared ownership to 62%

rented and 38% shared ownership would restore the residual land value in the example above to its 'pre-DPD' level (i.e. from £9.41 million to £10.23 million).

- 3.7 Alternatively, an overall reduction in affordable housing 40% to 37% would have the same effect of restoring the residual land value back to its 'pre-DPD' level.
- 3.8 Neither option is desirable, but flows from the provisions of adopted Local Plan Policy DM2. The Council recognises that the uplift in value generated by development is finite (but hugely variable, depending on benchmark land value and sales values of each individual scheme) and where the uplift is more constrained, there will be trade-offs.
- 3.9 In most cases, the impact is sufficiently small in scale that it can be absorbed through a modest reduction in land value. In cases where a trade-off is required, Policy NZC1 provides flexibility for applicants to demonstrate that full compliance is not viable.

## 4 Question 3.4:

### Is the approach to viability within the DPD policies consistent with that of the adopted Warwick Local Plan?

- 4.1 Policy DM2 of the adopted Local Plan notes that “*developments will be expected to comply with the policies set out elsewhere in this Plan...unless it can be demonstrated that the policies will result in the development being unviable*”. Applicants are required by Policy DM2 to submit a site-specific viability assessment, which will be independently reviewed on the Council’s behalf. Where an agreed viability issue emerges on an application, applicants are required to discuss the implications of this with the Council.
- 4.2 The requirements of Policy DM2 are also reflected in Policy H2 which notes that “*the amount of affordable housing, the form of provision, its location on the site and the means of delivery of the affordable element of the proposal will be subject to negotiation at the time of a planning application. The viability of the development will be a consideration in such negotiations*”.
- 4.3 The submission version of the DPD indicates at Section 11 that “*Net zero carbon development that accords with this DPD will be required except where it can be demonstrated that meeting all the requirements of this DPD will render a development proposal unviable*”. The DPD goes on to cross refer to the requirements of Local Plan Policy DM2.
- 4.4 The DPD notes that viability issues will be tested independently. The agreed outcome of that assessment will inform discussions between applicants and officers. Officers will consider any potential trade-offs.
- 4.5 The approach to viability within the DPD policies is therefore entirely consistent with the approach in the adopted Local Plan.

## 5 Question 3.5:

Has the viability testing and assessment undertaken to support the DPD and its policy requirements been based on reasonable and appropriate source data that is up to date and relevant?

### Summary of approach

- 5.1 The Viability Study [SUB6] adopts a proportionate approach to testing the viability of developments in the District and their ability to absorb the emerging policy requirements in the DPD alongside policies in the adopted Local Plan. In line with the requirements of the PPG, the Viability Study adopts a 'typology' approach which tests 11 housing schemes ranging from 3 units to 300 units (reflecting the range of schemes that the Council expects to come forward over the plan period); a C2 retirement housing scheme; 3 hotel schemes; 3 retail schemes; 2 office schemes; 3 B2/B8 schemes; and a student housing scheme.
- 5.2 The residual land value generated by each typology (using sales values reflecting the District-wide range) was compared to a range of benchmark land values, reflecting the existing uses of land in the District.
- 5.3 The Viability Study tests the schemes with and without the emerging policies (alongside other Local Plan policies) to consider the cumulative impact on viability.

### Other area-specific appraisal inputs

- 5.4 Section 4 of the Viability Study [SUB 6] sets out in detail the inputs applied in the appraisals. These include affordable housing values, which are based on rents for the relevant 'Broad Rental Market Area' for the Local Housing Allowance.
- 5.5 Commercial capital values are established through comparable evidence of lettings and sales of commercial buildings in the District from the 'Costar' database.
- 5.6 Rates of CIL are sourced from the Council's Annual CIL Rate Summary and Section 106 assumptions were provided by the Council, based on a range of recent schemes which had been determined by the Development Management team.

### Non area-specific appraisal inputs

- 5.7 The Viability Study uses appropriate and recognised national data sources for other non-area-specific inputs, and those inputs which have been tested elsewhere and found sound by inspectors, most recently at Bath and North East Somerset<sup>1</sup> and Cornwall<sup>2</sup>.

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<sup>1</sup> *Local Plan Partial Review Examination in Public held between 21 June and 6 July 2022*  
<sup>2</sup> *Climate Emergency DPD Examination in Public held between 21 and 24 June 2022.*



- 5.8 The cost uplift for meeting Part M4(2) and M4(3) of the Building Regulations is based on the percentage cost uplift identified by the MHCLG 'Housing Standards Review: Cost Impacts Study'. These percentages are applied to the BCIS costs identified elsewhere in the Viability Study.
- 5.9 The Viability Study incorporates a cost uplift for Biodiversity Net Gain based on the DEFRA study 'Biodiversity net gain and local nature recovery strategies – Impact Assessment'.
- 5.10 Rates for finance costs, sales and marketing fees, professional fees, land acquisition fees and profit are based on BNP Paribas Real Estate's reviews of live viability assessments submitted with planning applications (totalling circa 300 developments per annum).

#### **Changes to main appraisal inputs since the April 2022 Viability Study was published**

- 5.11 The Viability Study was originally drafted in June 2021 and was subsequently updated in April 2022. The key inputs to viability appraisals vary over time and consequently the outputs need to be considered in this context.
- 5.12 The underlying sales values used in the April 2022 Study were sourced from Land Registry data of sales in the District between January 2020 and November 2021. In order to ensure all the data shared a common base date, each transaction was adjusted (up or down as appropriate) to reflect the change in the Land Registry House Price Index ('HPI') for the District over the intervening period, bringing all the transactions to a common (November 2021) base date.
- 5.13 Since November 2021, the Land Registry HPI average sales value for the District has increased from £341,940 to £366,793, or +7.3%.
- 5.14 In accordance with the requirements of the PPG<sup>3</sup> the viability assessment uses build costs based on the RICS Building Cost Information Service ('BCIS'). The April 2022 Viability Study uses BCIS data from 15 January 2022. Over the intervening period, the BCIS Tender Price Index has increased from 349 (Q1 2022) to 368 (Q1 2023), or 5.4%.
- 5.15 In any scheme the gross development value is a significantly larger sum than costs, so the 7.3% increase in sales values has a much greater (positive) impact on residual land value than the (negative) impact of a 5.4% increase in costs. Even if the impact were the same (which it is not), there is a delta between value growth and cost inflation, which will result in an improvement in viability in comparison to the outputs of the April 2022 Viability Study.

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<sup>3</sup> PPG Paragraph: 012 Reference ID: 10-012-20180724

5.16 In summary, it has been demonstrated that the input costs used in the formation of the Viability Study [SUB 6] are reasonable and appropriate to draw the conclusions made in the Viability Study. In considering updates on sales values and build costs since April 2022, the relative uplift in these costs does not negatively alter the conclusions made in the Viability Study in April 2022 [SUB 6].

## 6 Question 3.6:

**Specifically, is the identified 3% uplift in build costs for homes from the current standards to the proposed build specifications, as set out in the Council's viability assessment work, based on reasonable and robust evidence?**

6.1 The cost uplift of 3% was based on existing evidence on the delivery of homes which achieve net zero carbon emissions by the definition/requirements set out by the DPD. The sources of data were:

- MHGLC's Cost of Future Homes Standard Impact Assessment (October 2019)
- Etude and Currie and Brown Energy Review and Modelling for Cornwall Council Climate Emergency DPD (Jan 2021)
- MHCLG Live Tables on Energy Performance of Buildings Certificates (Table "NB7 by LA"), release: 28<sup>th</sup> October 2021 in combination with BEIS Green Book Supplementary Guidance: Valuation of Energy Use and Greenhouse Gas Emissions for Appraisal, release: October 2021.

[Detailed in SUB5, page 21]

6.2 The Warwick DC Zero Carbon DPD Energy and Sustainability Policy Review [SUB 5] concludes that the cost uplift utilised data from the FHS Impact Assessment (fabric), Currie & Brown (heat pump), and offset costs (Bioregional, using BEIS per-tonne carbon valuation and grid carbon projections in combination with MHCLG data on carbon emissions of recent new homes in Warwick). This translated to a 2.6 – 2.7% uplift. This was rounded up to 3% to allow a margin of error for the purposes of the viability study. Applying a % uplift on the base build costs was deemed the most robust way of including the costs of achieving net zero carbon buildings rather than itemised costs of improved fabric efficiency, inclusion of a heat pump, and offsetting the remaining carbon.

6.3 A full explanation of the 3% cost assumption is provided in Regulation 22 Consultation Statement [SUB 9, paragraphs 1.14 to 4.20].

6.4 For the avoidance of doubt, the 3% uplift includes the carbon offset calculation.

6.5 In summary, the Warwick DC Zero Carbon DPD Energy and Sustainability Policy Review [SUB5] concludes that a 3% cost uplift most closely reflects the Warwick policy approach including the energy efficiency requirements of the Future Homes Standard, a heat pump and a dynamic offset solution. The Council concur with the conclusions of this report as based on reasonable, robust and available evidence as outlined.