Viability Appraisal

In support of the proposed Greater Norwich Local Plan

15 December 2020

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EXECUTIVE SUMMARY

Greater Norwich Development Partnership is the process of formulating the Greater Norwich Local Plan which, when adopted will become the key planning document covering the greater Norwich area to 2038.

This Viability Appraisal has been prepared to support the proposed plan and seeks to demonstrate whether existing and emerging polices are realistic and achievable. In addition, to also establish whether the total cumulative effect of all relevant polices would undermine the deliverability of the plan proposed.

The Viability Appraisal assesses eleven notional Typologies within a framework of set criteria and range of assumptions.

The findings demonstrate that the base appraisals for all Typologies with the exception of Typology 4, are considered viable.

Table summarising the base appraisal findings

Typology:	Description:	No. Dw:	Gross Site Area Ha:	Net of Site Area Ha:	Surplus/Deficit per Typology:	Per Dwelling:
1	South Norfolk Village Clusters	12	0.50	0.50	£49,994	£4,166
2	Main Town/Service Village	20	0.71	0.71	£249,722	£12,486
3	Urban	20	0.27	0.27	£360,925	£18,046
4	Urban Centre	20	0.25	0.25	-£334,734	-£16,737
5	Main Town/Service Village	50	2.02	2.02	£514,028	£10,281
6	Urban Fringe/Main Town	75	3.04	3.04	£1,021,280	£13,617
7	Urban Centre	100	0.50	0.50	£124,884	£1,249
8	Urban Fringe/Main Town	100	4.05	3.81	£1,082,087	£10,821
9	Urban Fringe/Main Town	250	10.12	9.51	£3,054,957	£12,220
10	Urban Fringe/Main Town	600	24.28	21.35	£4,692,976	£7,822
11	Urban Fringe/Main Town	1000	40.00	35.28	£10,822,469	£10,822

RED	Base Appraisal not viable
AMBER	Base Appraisal marginal i.e. surplus < £10,000 per dw
GREEN	Base Appraisal viable

These base appraisals were tested to assess where the margins of viability might lay. The findings of the sensitivity testing are located in Appendix J and summarised in the Conclusion section of this report.

It is important to note that while this Viability Appraisal builds on the initial 2017 Hamson Baron Smith report and the following 2019 Interim Study, this Viability Appraisal is based on data gathered during the latter part of 2020 and, as a consequence there are a number of key issues which could impact on the gross development costs such as the global pandemic (Covid 19), UK's exit from the European Union (Brexit) and climate change all of which could be material to viability within the plan's anticipated life.

Notwithstanding the above however, at the date of the Viability Appraisal the housing market i.e. impact on the gross development value is more positive than could have been anticipated 6 months ago with current predictions indicating that this market positivity will continue for the foreseeable future.

PART 1 - ACCOUNTABILITY

CLIENT AND TERMS OF ENGAGEMENT

Terms of Engagement for this Viability Appraisal

1. The client is the Great Norwich Development Partnership.

2. This commission is to prepare and complete a Viability Appraisal to support the emerging draft Greater Norwich Local Plan[1] building on the Hamson Baron Smith GNLP Viability Appraisal August 2017[2] and the 2019 Interim Study[3].

3. The purpose is to assess whether the existing and emerging planning polices where the parameters are set by client instructions, impact on the viability of a specified range of developments known as Typologies.

4. Clients instructions are to assess the viability of 11 Typologies to incorporate:

- Prescribed housing densities per Typology size and location,
- Housing mix as suggested by the Housing Officers,
- National described space standards and GNDP Study, August 2019 for dwelling sizes
- Affordable Housing at 33% or 28% in the central Norwich,
- Affordable Housing tenure split at 75:25 between Affordable Rented Tenure (ART) and Affordable Home Ownership (AHO),
- Sale of ART dwellings at 45% of market value or 55% discount and, sale of AHO dwellings at 75% of market value or 25% discount per house type,
- Existing Local Plan policies – Community Infrastructure Levy (CIL) and General Open Space and Play Areas, and
- Emerging Local Plan policies – Open Space (SANGS), Sustainability – water, energy and access at prescribed rates, and Visitor Pressure Tariff (RAMS).

5. By way of background, the original parameters and terms of engagement of the initial GNLP Appraisal and the subsequent Interim Study were agreed with Hamson Barron Smith in 2016. The core commission has essentially remained the same although as further investigations and consultations over time has taken place, the parameters have altered to meet with client aspirations.

6. All other elements of the appraisals are an objective assessment of current practices and approach to viability appraisals together with researched data to establish associated cost inputs.

Practitioner Status

Interim Study

7. The following was provided and incorporated into the Interim Study.

8. In accordance with the RICS professional standards and guidance, England – Financial viability in planning: conduct and reporting 1st edition, May 2019[4] the practitioner can confirm on behalf of NPS Property Consultants Ltd that she has complied with the following in so far as she was able to:

- She has remained objective, impartial and reasonable,
- There are no known conflicts of interest,
- Confirmation of instructions have evolved over time due to nature of this commission, it has been a commission of collaboration with other property advisors employed by the client,
- There is no performance related or contingent fee relating to this commission,
- With the exception of confidential material used to assess viability inputs the material used is available,
- This is an area wide viability assessment and not site specific,
- Where possible the practitioner has sought to justify and evidence the viability appraisal inputs but where a high degree of practitioner judgement has been made, this has been stated,
- The 'Benchmark Land Value' – see Part 2 for approach and commentary,
- With regard to Sensitivity Analysis – see Part 3 and the comments made.

9. The client had also commissioned a consultant to act impartially and as a critical friend in this process. He has worked closely with both the client and the practitioner and this report is the culmination of that collaboration.

Consultee Comments

10. While the Practitioner considers that she had complied in so far as she was able, with the requirements when undertaking Viability Appraisal, one consultee report had a number of concerns with regard to the compliance with Practice Statements. These were:

- A potential conflict of interest,
- That in accordance with paragraph 2.2 of the 2019 PS the terms of engagement were not clearly set out in the report,
- That in accordance with 2.1 of the Viability PS 2019 there was no statement of objectivity, impartiality and reasonableness made within the Interim Study,
- That in accordance with 2.6 of Viability PS 2017 that no supporting data accompanied the Interim Study,
- In accordance with paragraph 4 of the Viability PS 2019 the author is required to be reasonable, transparent fair and objective, and
- Reference is made to a 'critical friend' used, more information is sought to who this person is.

Review

11. Tracey Burton (now Tracey Powell) is employed by NPS Property Consultants Ltd. and is a member of the Royal Institution of Chartered Surveyors (RICS) and an RICS 'Registered Valuer' (the Practitioner).

12. She specialises in Development Appraisals, Viability Assessments and Critical Appraisals in addition to other general practice work relating to compulsory purchase, asset valuations for accounting purposes as well as the provision of formal valuations and valuation advice for a wide variety of purposes. Tracey Burton has 25 years post qualification experience.

13. NPS Property Consultants Ltd., Nautilus House, Thorpe St Andrew Business Park, Thorpe St Andrew, Norwich, Norfolk has been commissioned by the Greater Norwich Development Partnership to aid the preparation of the Local Plan under Regulation 19 of the Town and Country Planning (Local Planning) (England) Regulations 2012 (as amended).

14. NPS Property Consultants Ltd is the parent company for the NPS Group. The consultancy is responsible for delivering consultancy services to the sole shareholder Norfolk County Council, as well as other public and private sector customers in the East of England. Norse Group Ltd is the holding company of NPS and sister companies Norse Commercial Services and NorseCare.

15. The parameters and terms of engagement of the initial GNLP Appraisal and the subsequent Interim Study were initially agreed with Hamson Barron Smith in 2016. The core commission has essentially remained the same although over time but consultation and further discussion with the client and their advisors.

16. The practitioner can confirm on behalf of NPS Property Consultants Ltd that she has complied with the RICS professional standards and guidance, England – Financial viability in planning: conduct and reporting 1st edition, May 2019 as far as she was able to, and where any deviance may have occurred this is referred to within the body of the study.

17. Particular reference has been made to Broadland Growth Ltd (BGL) and potential conflict of interest. While BGL is a company whose remit is to facilitate the development of difficult sites which have not come forward in the usual way, it is treated no differently than any other client. While the Practitioner has had some previous involvement in early high-level viability work on behalf of BGL, she is not in a position of influence or party to decision making process any scheme.

18. The Practitioner does however consider that any information or data gained from high-level assessments and the subsequent analysis of completed schemes helps to place the assessed data inputs in context with regard to the Typologies.

19. She considers that she is in similar position to the consultees who work for a variety of organisations from housebuilders, developers, housing associations, Borough and County Councils in their own preparation of site specific viability assessments.

20. Where Critical Appraisals are undertaken, these are undertaken in accordance with the RICS professional standards and guidance, England – Financial viability in planning: conduct and reporting 1st edition, May 2019.

21. The Practitioner therefore considers that:

- She has remained objective, impartial and reasonable,
- There are no known conflicts of interest,
- Confirmation of instructions have evolved over time due to the nature of this commission, it has been a commission of collaboration with other property advisors employed by the client, the current commission is stated above,
- There is no performance related or contingent fee relating to this commission,
- With the exception of confidential material used to assess viability inputs the material used is available,
- This is an area wide viability assessment and not site specific,
- Where possible the practitioner has sought to justify and evidence the viability appraisal inputs but where a high degree of practitioner judgement has been made, this has been stated,
- The 'Benchmark Land Value' – see Part 3 for approach and commentary,
- With regard to Sensitivity Analysis – see Part 4 and the comments made.

Supporting Data

22. A major criticism was that there was no supporting data included within the Interim Study although this was referred to. Although data had been collected it had not been sufficiently collated in a form to accompany the report. This was an oversite.

23. Going forward, this Viability Appraisal incorporates a variety of evidence. But where evidence has not been provided, as before, this will be stated together with the impact this may have on the Viability of the Typologies.

Critical Friend

24. A further criticism made was that the Interim Study referred to a 'critical friend' but provided no details; this was also an oversight.

25. As with the Interim Study, GNDP has asked Stuart Bizley BSc MRICS of SMB Property Consultancy to continue to sense check the Viability Appraisal as a 'critical friend'. Mr Bizley is a Chartered Surveyor of more than 30 years' experience and a local practitioner undertaking financial viability assessments on behalf of landowners and developers as well as reviews on behalf of local planning authorities. He also has extensive knowledge and experience of bringing forward and delivering residential development sites.

26. Mr Bizley can confirm that:

- There is no performance related or contingent fee relating to his commission,
- He has not divulged any confidential material used to assess viability inputs the material used is available,
- He has remained objective, impartial and reasonable, and
- That there are no known conflicts of interest.

PART 2 - CONTEXT

Purpose

27. This report has been prepared to support the Draft Greater Norwich Local Plan (GNLP) Strategy document which is the first part of the consultation of the Greater Norwich Local Plan.

28. The key objective of this report is to identify and demonstrate that the existing and proposed policies relating to housing of the emerging Greater Norwich Local Plan have been robustly 'tested' as recommended by published guidance.

29. The purpose of this 'testing' is to inform those preparing the Plan that the policies proposed are achievable while ensuring that landowners and developers achieve a satisfactory return on their investment.

30. Where positive findings are identified and demonstrated it should generate a degree of confidence in those relevant policies enabling landowners and developers to bring land forward for development with a greater degree of certainty regarding costs; and enable Planning Authorities to identify sites which can be developed in the plan period and meet nationally set housing delivery targets.

31. This 'testing' has been undertaken by reference to the NPPF viability guidance September 2019[5], Viability Testing Local Plans: Advice for planning practitioners June 2012 the 'Harman Guidance'[6], the RICS Financial viability in planning guidance, the outcome of stakeholder consultation and continuing client consultation taking forward the recommendations of the Hamson Baron Smith GNLP Viability Appraisal August 2017 (the HBS Report). The 2019 Interim Viability Study prepared by NPS Property Consultants Ltd took the viability process a stage further by applying a cost to the proposed emerging policies and where possible sought to update the viability inputs to enable further testing of viability to be undertaken.

Context

32. The Greater Norwich Development Partnership was established to coordinate the production of the Greater Norwich Local Plan. GNDP consists of Norwich, Broadland and South Norfolk Councils supported by Norfolk County Council and the Broads Authority.

33. The GNLP covers the period from 2018 to 2038.

34. The key to success of the GNLP will ensure that the delivery of jobs, infrastructure and housing takes place. Some inroad had been made to improve infrastructure and job growth however the impact of Covid-19 on the economy in 2020 has bought about additional and unprecedented challenges nationally.

35. This has placed added pressure on the delivery of sustainable housing in large numbers across the country, and the numbers required for the Greater Norwich area have increased significantly.

36. The Draft Greater Norwich Local Plan (GNLP) Strategy document has been prepared under Regulation 18 of the Town and Country (Local Planning) Regulations 2012 (as amended)[7]. There are key requirements in the preparation of the Local Plan regarding content, consultation, timescales etc.

37. This Viability Appraisal will support the Draft Plan Regulation 19 submission in early 2021 with the focus on housing.

38. The draft Plan provides context for the Housing Growth Needs for Greater Norwich and goes on to provide text regarding the Settlement Hierarchy leading to Policy 1 – The Sustainable Growth Strategy, Policy 5 – Homes, and Policy 7 – Strategy for the Areas of Growth. Specific Site Allocations are not dealt with by this document.

39. The overarching draft Plan Objectives impacting directly on housing are as follows:

<u>Homes</u>
'To enable delivery of high-quality homes of the right density, size, mix and tenure to meet people's needs throughout their lives and to make efficient use of land.'

<u>Delivery</u>
'*To promote the delivery of housing, jobs and infrastructure to meet identified needs, supported by intervention mechanisms where the market is unable to deliver.'*

<u>Environment</u>
'*To protect and enhance the built, natural and historic environments, make best use of natural resources, and to significantly reduce emissions to ensure that Greater Norwich is adapted to climate change and plays a full part in meeting national commitments to achieve net zero greenhouse gas emissions by 2050.'*

Viability Assessment Framework

40. In order to undertake a viability assessment of the proposed Local Plan policies in relation to housing delivery, a number of key publications and guidance were considered. These are as identified below.

<u>National Planning Policy Framework 2019 (NPPF) (previously 2012)[5]</u>

The NPPF calls for balance between sustainable development which benefits the local community and realistic returns for landowners and developers such that the development is commercially viable.

<u>Planning Policy Guidance 2019[8]</u>

This Guidance is key to why viability appraisals are used at the early formation of emerging Local Plans and then goes onto to say how to approach those viability assessments.

'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure.

These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of Community Infrastructure Levy (CIL) and Planning Obligations (section 106). Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing should be expressed as a single figure rather than a range. Different requirements may be set for different types or location of site or types of development.

Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that total cumulative cost of all relevant policies will not undermine deliverability of the plan.

Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage. Assessment of samples of sites may be helpful to support evidence. In some circumstances more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies.'

<u>Viability Testing Local Plans: Advice for planning practitioners. Local Housing Delivery Group chaired by Sir John Harman June 2012 (the Harman Report)[6]</u>

This report provides advice to support the 2012 National Planning Policy Framework by outlining the importance of viability and deliverability as part of the balance in developing Local Plans. The guidance provided is a collective view of a variety of stakeholders such as the Homebuilders Federation, the Local Government Association and house builders and while those views may differ, common ground was sought, particularly given the current resource constrained economy, for pragmatic, balanced planning policies and simplified development standards.

The report deliberately focused on assessing the whole plan and the policies that are being developed as part of the plan making and is aimed at those responsible for plan making as well as those with whom planners will work and engage with to produce deliverable and sustainable plans.

RICS Professional Guidance, England 1st Edition: Financial viability in planning (GN 94/2012)[9]

RICS Guidance notes are documents which provide users with recommendations for accepted good practice.

The purpose of this guidance note is to '*provide all those involved in financial viability in planning and related matters with a definitive and objective methodology framework and set of principles primarily for application to development management*'. [Box 1]

The guidance note further explains that '*the note is grounded in the statutory and regulatory planning regime that currently operates in England. It is consistent with the Localism Act 2011, National Planning Policy Framework of 2012 and Community Infrastructure Levy (CIL) Regulations 2010*.' [Box 2]

The guidance note explains that '*the most common uses for financial viability assessments are for development management and plan making (policy and CIL viability testing). The guidance note has a particular focus on development management (scheme specific assessments) although the principles set out are equally applicable to plan making and CIL (area wide) viability testing*.' [Box 3]

Viability assessments are important in planning and proper understanding of financial viability and essential in ensuring that:

- Land is willingly released for development by landowners,
- Developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development,
- The proposed development is capable of securing funds,
- Assumptions about quantum of development that can be viably delivered over the course of the plan period are robust, and
- CIL charging schedules are set at an appropriate level.

Financial viability is defined as '*an objective financial viability test of the ability of a development project to meet its costs including 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.*'

It is important to note that at the time of compiling the Interim Study, the RICS is producing a second edition of this Guidance Note to reflect the changes in the NPPF 2018, as updated in February 2019 and PPG 2018, as updated in May 2019. The outcome of this revision may affect the approach to viability assessments or 'viability testing'.

RICS Financial viability in planning: conduct and reporting. 1st Edition, May 2019[4]

This document is a RICS professional statement [PS]; this means that it is a mandatory requirement of RICS members and RICS-regulated firms.

In addition to recognising the importance of impartiality, objectivity and transparency when reporting on viability appraisals, the practice statement also aims to support and complement the governments reforms to the planning process announced in July 2018.

This new policy and practice advice prioritises the assessment of viability at the plan making stage and identifies Existing Use Value as the starting point for assessing the uplift in value required to incentivise the release of land.

Consultation and Response

41. The Interim Study was consulted on during late 2019 and early 2020. The Study was published to the GNDP website and responses were encouraged from the public. With the aim of seeking industry professional responses, lunchtime briefings were given, and a formal workshop held at County Hall in Norwich where the viability appraisals were considered in greater detail. Responses were collated during the events and stakeholders were encouraged to provide feedback.

42. A range of views and comments were made and formally submitted to the GNDP to consider accordingly. A summary of these comments is provided in Appendix A – Schedule of Consultee Responses.

43. The stakeholders generally accepted the findings of the Study however there were several notable concerns regarding how some of the elements of the viability appraisals had been approached together with the levels of cost underpinning those appraisals.

44. This Viability Appraisal seeks to address each of the concerns in so far is possible, and where the findings indicate that adjustments or changes should be made these will be made.

45. Where findings suggest that current proposals are acceptable in this assessment of viability this will be stated with reasoning in so far is possible.

46. Key to understanding the Viability process is to understand that these are assessments of notional Typologies, not site-specific assessments. While on the one hand too little detail and wide sweeping assumptions made will make the appraisals meaningless, conversely greater detail could only be considered at a site-specific level.

Greater Norwich Development Partnership Approach

General Approach and Assessment of Typologies

Interim Study

47. The fundamental criteria which underpinned the Interim Study took forward the key draft Local Plan Vision and Objectives for the Greater Norwich area to 2038 regarding homes. This was:

'To enable delivery of high-quality homes of the right density, size, mix and tenure to meet people's needs throughout their lives and to make efficient use of that land'.

48. The approach adopted was to create a number of hypothetical residential development scenarios identified as 'Typologies' which although hypothetical, would fall broadly in line with GNDP's proposals and Policies on:

- Vision for Greater Norwich,
- Settlement Hierarchy,
- Energy, Water Efficiency and Lifelong Access,
- Housing densities and mix of dwelling types,
- Green Infrastructure and Open Space,
- Visitor Pressure Tariff Policy, and
- Appropriate levels of Affordable Housing.

49. When considering the number of Typologies to be assessed, the Interim Study made reference to the previous HBS Report where 7 Typologies were appraised; following consultation this was expanded to 9 Typologies.

50. The 9 Typologies broadly followed the Settlement Hierarchy identified in the Draft Reg 18 GNLP document.

51. The Settlement Hierarchy were identified as:

I. The Norwich urban area which consists of Norwich and the built up parts of the fringe Parishes of Colney, Costessey, Cringleford, Drayton, Easton, Hellesdon, Old Catton, Sprowston, Taverham, Thorpe St Andrew, Trowse and the remainder of the Growth Triangle.
II. The main towns which are Aylsham, Diss (including Roydon), Long Stratton, Harleston and Wymondham.
III. The key service centres which are Acle, Blofield, Brundall, Hethersett, Hingham, Loddon/Chedgrave, Poringland/Framingham Earl, Reepham and Wroxham.
IV. Village clusters which cover the remainder of the Greater Norwich Local Plan area.

52. The size and density proposed for each Typology was be influenced by the site area stated by assessment of housing density and any on-site open space or green infrastructure requirements.

53. The developments considered in the viability appraisals were for mainstream residential development and not specialist accommodation such as homes aimed at the elderly, students or the traveling community.

Consultee Response

54. A number of comments were made, these mainly related to the larger sites although not exclusively. These were:

- That there were allocations in the draft plan for developments in excess of 1000 dwellings but no Typology of a similar size,
- That paragraph 005 of the NPPF states that 'it is important to consider the specific circumstances of strategic sites', and
- There was no Typology for the smaller rural sites mainly located within South Norfolk.

Response

55. Following the consultee concerns, GNDP have further expanded the number of Typologies by two – a Typology to cover small South Norfolk Villages and one to assess 1000 dwellings.

56. With regard to the assessment of 'specific circumstances of strategic sites' it is acknowledged that such sites will be impacted by strategic infrastructure costs over and above the usual developments costs of an average development site.

57. These strategic sites will be appraised in greater detail independently. What this Viability Appraisal achieves is to demonstrate whether the development of notional sites using an adjusted but standardised approach, can incorporate the emerging planning policies into the development costs while still achieving a satisfactory developers return and adequate land value to ensure land is bought forward for development.

58. It is important to note therefore that in addition to strategic sites the following are also not considered:

- Mixed developments,
- Supported accommodation such as sheltered housing, extra care and care homes, residential care and supported living,
- Gypsies or Traveller accommodation,
- Travelling Show people and Residential Caravans accommodation,
- Purpose built student accommodation,
- Self-build or custom build accommodation, and
- Live Work units.

Review

59. This Viability Appraisal assesses the viability of 11 notional Typologies which broadly fall in line with the proposed Policy 1 – Sustainable Growth Strategy - Hierarchy Settlement.

Table 1: Typology Base details

	Description:	Indicative Locations:	No. Dw:	Ha:
1	South Norfolk Village Clusters	Areas outside main towns and key service centres	12	0.50
2	Main Town/Service Village	Acle, Aylsham, Brundall Dickleburgh, Harleston, Mulbarton, Wymondham	20	0.71
3	Urban	City – outside ring road	20	0.27
4	Urban Centre	City – inside inner ring road	20	0.25
5	Main Town/Service Village	Acle, Aylsham, Brundall Dickleburgh, Harleston, Mulbarton, Wymondham	50	2.02
6	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	75	3.04
7	Urban Centre	City – inside inner ring road	100	0.50
8	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	100	4.05
9	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	250	10.12
10	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	600	24.28
11	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	1000	40.00

Please note that the Interim Study Typology numbering has altered.

Proposed Policy Requirements

Housing Density

Interim Study

60. It was stated that while there are no specific Planning Policies relating to density there is a general presumption that Norwich City will achieve in the order of 40 dwellings per Hectare and Broadland and South Norfolk Councils would look to achieve 25 dwellings per Hectare.

61. The 2017 Hamson appraisal assumed a variety of densities which were implied within the 7 Typologies assessed, however, following stakeholder consultation, further assessment and analysis was undertaken by HBS of typical housing densities being achieved in the Greater Norwich area.

62. This assessment was applied as appropriate to the 9 Typologies in the Interim Study where the densities were assumed to be approximately 25 dwellings per Hectare for the large Urban Edge sites, Service Villages and Main Towns. The density rose dramatically for the Urban Centre which is where you would expect to achieve higher densities.

63. In addition, the larger sites would require an allowance for Sustainable Urban Drainage (SUDS), provision of on-site Open Space and site wide infrastructure and while the larger sites in part do allow for this, what has not been taken into account is the expectation that the large sites will be expected to achieve as part of the overall scheme the provision of community, health and educational facilities as well as commercial and retail facilities in support of the development.

64. Caveat: Each site in practice is unique, the densities shown above are considered to be the levels which Local Planning Authority's would wish to achieve. Any changes would lead to more or less dwellings and therefore the appraisals would alter.

Consultee Comments

65. There were no specific comments with regard to housing densities other than the impact of community facilities etc might have on a development of the larger Typologies size, and while the Interim Study referred to this point no further assessment was made.

Review

66. Following discussion with the GNDP it is not intended to alter the densities from the previous Interim Study.

67. With regard to the larger Typologies and the provision of community facilities etc, given that this will be a strategic matter and that these large strategic sites will be assessed independently, it is not intended to alter the general approach.

Table 2: Typology Densities

	Description:	**Indicative Locations:**	**No. Dw:**	**Per Ha (acre):**
1	South Norfolk Village Clusters	Areas outside main towns and key service centres	12	24 (10)
2	Main Town/Service Village	Acle, Aylsham, Brundall Dickleburgh, Harleston, Mulbarton, Wymondham	20	28 (11)
3	Urban	City – outside ring road	20	74 (30)
4	Urban Centre	City – inside inner ring road	20	80 (32)
5	Main Town/Service Village	Acle, Aylsham, Brundall Dickleburgh, Harleston, Mulbarton, Wymondham	50	25 (10)
6	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	75	25 (10)
7	Urban Centre	City – inside inner ring road	100	200 (81)
8	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	100	25 (10)
9	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	250	10.12 (10)
10	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	600	24.28 (10)
11	Urban Fringe/Main Town	Bowthorpe Aylsham, Drayton, Hellesdon, Costessey Harleston, Wymondham	1000	40.00 (10)

NB Shown against the Gross Development Area – see other Summary Tables for Net Densities.

Housing Mix

Interim Study

68. The NPPF places the emphasis on local plans to provide the mix of dwellings required locally.

69. The Draft GNLP Strategy document indicated that generally the mix of dwelling types developments should be providing are:

- 10% I bed flats
- 7% 2+bed flats
- 15% 2 bed houses
- 50% 3 bed houses
- 15% 4 bed houses
- 3% 5+bed houses

70. While the GNLP document has categorised housing mix against 6 dwelling types, the original HBS report and the Interim Study assessed 4 categories which was considered to adequately reflect the notional housing mix relating to that particular Typology. The percentage splits were then adjusted following the outcome of an objective strategic housing market assessment and analysis of approved planning permissions by HBS, to establish typical patterns which were being delivered by the market. Although at the time this was not a wholly scientific assessment of current developments but it was considered to be generally in line with the scale of development which might be achieved in the hypothetical locations of the individual Typology by typical developers.

71. Clearly not all developments would achieve the mix identified. Differing localities will require a range of mixed dwelling types to ensure the development meets other important sustainable criteria.

72. The approach adopted with regard to the Interim Study was that when assessing what the individual Typologies may achieve, the scale of development and hypothetical location rather than any specific housing need prevailed. Practitioner assessment therefore considered the draft GNLP proposals regarding mix together with the additional client aspirations.

Consultee Response

73. One consultee referred to the mix of dwellings in the context of affordable housing rather than the general housing mix across the Typologies. This will be addressed in the Affordable Housing sections below.

Housing Officer Review

74. Although there were few consultee comments, the Housing Officers at the three authorities were consulted seeking their confirmation that the notional densities applied to the Interim Study remained acceptable with focus on the Affordable Housing provision.

75. Each considered the Typologies (as revised) and suggested alternative mix in accordance with their knowledge of their area housing needs and provided additional comments with regard to developers increasingly building 1 bedroomed houses over flats, and blocks of up to 6 or 8 flats of no more than 3 storeys high.

76. Their response has been tabulated and forms Appendix B.

Review
77. In light of the Housing Officer comments, an additional house type has been incorporated into the housing mix for a number of the Typologies where it is considered a one bed house may typically be developed. It is considered that these will replace some of the flat allocations assessed in the Interim Study and reflect current and emerging trends.

78. The actual mix of dwellings together with the Affordable housing allocations to be assessed can be seen in Appendix C – Typology Base Data. This Appendix provides all the core data with cross checks for each Typology, this particular Appendix will support other sections of the Viability Appraisal.

Size of Dwellings

Interim Study
79. The NPPF places the emphasis on local plans to provide the sizes of dwellings required locally.

80. The Draft GNLP document requires that all homes should be '*large enough to provide a good quality of life with adaptable homes built to meet the varied and changing needs of our communities*'.

81. To further support the preparation of the Local Plan, GNDP has prepared its own study with regard to Nationally described space standards and was appended accordingly see Appendix D.

82. Each Typology assumed the same size house types were constructed although in practice, individual developments would have a variety of house type and dwelling sizes.

Consultee Comments
83. No specific comments made.

Review
84. In addition to meeting Government's Nationally Described Space Standard and with regard to the Housing Officer comments relating to the increasingly popular provision of 1 bed dwellings, an additional dwelling type has been added at 58 sqm and incorporated into the mix of dwellings as necessary.

85. The following area are applied:

Flat / Apartment	1 bed	50 m²
Flat / Apartment	1 or 2 bed	60 m²
Flat / Apartment	2 bed	70 m²
Flat / Apartment	3 bed	86 m²
House	1 bed	58 m²
House	2 bed	79 m²
House	3 bed	102 m²
House	4 bed	124 m²

86. Caveat: It is important for developers to judge the type of dwellings for specific sites having regard to the site's location and prevailing market conditions at that location in order to maximise return. Where the developer has not judged its development well against that criteria, or the market has altered, developers may and do employ a number of techniques to minimise risk or exposure.

87. Please note that the quality or standard of homes assessed is discussed in Part 3 - Application.

Affordable Housing

Interim Study

88. The NPPF states that the Government's objectives is to significantly boost the supply of homes. GNLP addresses this through its proposed housing strategy and the housing allocations in the Sites document.

89. The NPPF also states that major housing developments should meet the need for affordable homes on-site with at least 10% of the affordable homes available for affordable homeownership with emphasis placed on local plans to identify the amount of affordable houses needed locally.

90. The Draft GNLP Strategy document identified that 33% of the housing should be affordable and 28% on sites which might be more difficult to develop. While there is an expectation that 33% affordable housing is to be achieved across the whole of the Greater Norwich area, 28% is acceptable in the geographic area of the City Centre.

91. While the draft Local Plan also indicated that there will be a flexible approach in relation to affordable housing sizes, types and tenures to allow for differing needs to be met in the three districts, the Interim Study viability appraisals were to be based on fixed criteria.

92. This was as follows:

1. To assess whether 33% affordable provision for each Typology on the basis of a 75:25 split between the tenures (ART and AHO) with expected revenue at 60% and 75% of market value for the relevant house type could be achieved, and

2. Where 33% affordable provision on the basis stated above could not be achieved then seek to establish what level of affordable housing could be achieved.

93. The mix provided above had a degree of practitioner judgement following consultation with the client and property professionals.

94. Caveat: No account was taken:

- of the Typology hypothetical locations in terms of differing types of tenure requirements, it is assumed that the size of affordable homes are as the market dwellings for the relevant house type and the mix broadly follows the general mix for the particular Typology, and

- specialist dwellings such as student accommodation, sheltered housing, housing with care, accommodation for the travelling community or custom-built of 5% on sites of 40 dwellings or more.

Consultee Response
95. There is no rationale for a 75:25 split between ART and AHO dwellings.

Review
96. Policy 5 – Homes is seeking to achieve 33% affordable housing on-site across the plan area with the exception of the City Centre where the requirement will be at least 28% unless specifically allocated in a neighbourhood Plan or where brownfield sites costs of remediation can justify a lower percentage or different approach.

97. In addition, Policy 5 is seeking to achieve affordable homes of equivalent quality and 10% of the affordable homes being available for affordable home ownership.

98. For further clarification and in addition to the Housing Mix review, the three Housing Officers confirmed their authorities' approach to affordable housing tenure split.

99. Norwich City tends to accept an 80:20 splits, Broadland 60:40 while South Norfolk seeks a 75:25 split. While these apportionments are the starting point, in practice where an individual sites circumstances are such that viability is marginal, proposals to alter the housing mix may be considered to ensure viability is achievable and therefore housing delivered.

100. The rationale behind the 75:25 split was considered to meet the midway point and would be acceptable as the joint approach. The emerging Local Plan is therefore looking to understand whether the proposed split can be achieved.

101. While Policy 5 – Homes is indicating at least 10% should be affordable, the modelling has retained the 75:25 split between ART and AHO dwellings. It could be argued that this is a better position for developers as their revenue will increase as a consequence of a greater number of AHO dwellings.

102. It should be noted that no Sensitivity Testing around the type of affordable housing products to be delivered has been undertaken.

Emerging Policy Requirements

Policy 2 – Sustainable Communities
Water, Energy and Lifetime Access

Background and Interim Study Approach

103. GNDP through the GNLP Strategy document is looking to introduce and implement a policy with regard to water, energy efficiency and renewable energy to meet Government policy where there is the expectation that Local Authorities will adapt to climate change.

104. The GNLP Strategy document provides the context about this emerging policy. The practical impact on viability is as follows:

Water:-

- Housing developments will be required to meet Building Regulations Part G (amended 2016) water efficiency higher optional standard, or any equivalent successor.

If the potential to set more demanding standards locally is established by Government up to 2016, the highest potential standard will be applied in Greater Norwich.

Energy: to achieve energy efficiency and the promotion of sustainable energy supplies to assist growth delivery:-

- All new dwellings will provide a 20% carbon reduction against Part L of the 2013 Building Regulations (amended 2016), and
- Sustainability Statements will set out how development proposals for 100 dwellings plus will reduce energy demand and maximise opportunities for the use of sustainable local energy networks and battery storage.

Access: major developments to be designed to be adaptable to meet changing needs over time, thus enabling people to stay in their homes for longer.

- 20% of homes to meet this requirement.

105. As a consequence of the above, a cost per dwelling was assessed to cover these policy requirements. These sums are identified in the viability appraisals as follows:

Water	£9	per dwelling
Energy	£5,000	per dwelling
Access	£940	per qualifying dwelling

106. The appropriate level or multiplier to cover these additional costs were considered previously by HBS with reference to ECHarris 2011 Report[10] and UK Green Council Building Standards[11].

Consultee Response

107. A number of comments have been made to the Interim Study these are:

- No account of the costs associated with electric charging points,
- Unsure that sums associated with achieving greater standards have been fully costed and applied,
- Zero carbon should be the starting point and work backwards, and
- No additional costs arising from Part L 2020.

Review

108. The majority of the comments noted are considered to be valid aspirational points however, given the nature of these notional Typologies it is not feasible to go into the level of cost detail as suggested.

109. The sums stated are an attempt to demonstrate that these policies are acknowledged and that developers will be expected to incorporate these proposed standards into new development.

110. The costs associated with water and energy have not altered from the Interim Study however the proposed GNLP Accessible Homes Policy is looking to achieve £1,400 per property to reach standard M4(2); this is an increase from the Interim Study which applied £940 per qualifying dwelling.

111. By way of explanation the Energy Policy of £5,000 per property, reflects recent consultation that estimated £4,847 to reach the 'fabric plus technology' improvements for a 3-bed semi-detached house. Reference: The Future Homes Standard: changes to Part L and Part F of the Building Regulations for new dwellings, MHCLG, October 2019[12]

112. With regard to the Access Policy this is based on estimates from a recent consultation: Raising accessibility standards for new homes, MHCLG, September 2020[13]

Policy 3 – Environmental Protection and Enhancement
Visitor Pressure Tariff policy (RAMS)

Background and Interim Study Approach

113. Following recent cases elsewhere in England, Local Authorities are expected to consider and account for additional pressure from the cumulative effect of new developments on significant sites such as 'the Broads', North Norfolk coastal regions and the forest and heathlands of Breckland in addition to the more local environmentally sensitive locations.

114. GNDP are addressing this issue through the emerging Local Plan by proposing a visitor pressure tariff of:

- £200 per dwelling.

115. The monies collected will be collated and managed by appropriate public or quasi-public bodies or trusts operating within the GNLP area or outside as appropriate.

Consultee Response

116. No comments made.

Review

117. A small change of £5 increasing the tariff to £205 per dwelling.

Statement regarding impact of COVID19 and BREXIT on the Economy and this Viability Appraisal

118. Commentary regarding the wider economy and its impact on the residential property market (market uncertainty).

In order to better understand the current economic climate and its impact on the residential market in its wider context, it is considered important to convey how market uncertainty affects valuations. Such statements are a mandatory requirement for all formal valuations undertaken in accordance with the RICS Valuation Global Standards 2020 (The Global Red Book)[14]. While this Study does not constitute a formal valuation, it is considered that these appraisals of notional Typologies should be placed in context nonetheless.

Since the preparation of the Interim Study there have been two significant events that give rise to material uncertainty and how it might impact on valuations prepared:

- Brexit, and
- The COVID-19 pandemic.

The prospect of the United Kingdom leaving the EU ('Brexit') has been one of the most significant economic events affecting the UK and while it is now known that the UK has technically left the EU there remains much uncertainty as to what trade deals can be effectively put in place following the current transition period. This may directly impact on new build both in terms of materials and labour costs as well as an impact on the wider prosperity of the country.

The second and equally significant is the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020. It is quite clear that initial measures taken to stem the spread of the virus earlier in the year had significantly slowed if not stopped house sales. More recently with a different range of measures taken, the 'pent-up' demand for property has seen a more buoyant market emerge. What is not known is whether this current buoyancy will continue into 2021 and beyond given the immense impact on the economy with job losses increasing in spite of Government measures employed to bolster businesses more directly affected by increased restrictions on public movement.

BCIS Summary and Forecast (extract) as at 1 December 2020 states:

'According to the Halifax, house prices rose by 3.3% in 3rd quarter 2020 compared with the previous quarter, and by 7.3% on an annual basis. The Halifax report that these rather unexpected increases are the result of the highest level of mortgage applications since 2008, a move to home working, and the stamp duty holiday. However, the Halifax believe that there will be significant downward pressure on house prices over the upcoming months as the realities of an economic recession are felt more keenly.

Nationwide report that house prices rose by 1.7% in 3rd quarter 2020 compared with 2nd quarter 2020, and by an annual 3.4%.'

While there are very positive and encouraging signs, and at the time this report was being complied the prospect of a vaccine was emerging, the weight attached to market evidence for comparison purposes remains difficult to ascertain with any degree of certainty.

PART 3 – APPLICATION

Greater Norwich Development Partnership Approach

Background

119. The purpose of this Viability Appraisal and the framework in which these appraisals are undertaken have been set out in Part 2 – Context.

120. This section provides the assumptions upon which each of the viability appraisals are undertaken.

121. Part 4 provides the parameters and methodology regarding Sensitivity testing of the base appraisals.

122. Part 5 provides a Summary of the findings and commentary regarding the overall objective of this Viability Appraisal.

123. In practice, there are a range of published reports which refer to how to approach development appraisals. The reports, which relate to 'viability in planning' are referred to as previously provided in Part 2.

124. Some important points to note and to ensure these appraisals are placed in context are that:

- The developer has relatively little control over costs associated with a development with perhaps the exception of economies of scale or a rapidly rising market and, to a lesser extent the choice with regard to the quality of a proposed development, and

- The assessment of land values is the most emotive of issues – what will landowner/s be prepared to sell/release land at, when development costs with little flexibility are known? Where development costs are too high, the development will simply not come forward.

125. The debate and academic discussion regarding land value will no doubt continue nationally and play out locally, however, regarding these appraisals GNDP follow the accepted guidance and methodology.

126. The detail below sets out how to undertake a viability assessment (process) and what to do with the information gathered (methodology).

127. This Viability Appraisal has assessed 11 Typologies which look to reflect a variety of locations in the Greater Norwich area taking into account:

- all relevant planning policies whether existing or emerging,
- sustainable levels of affordable housing, and
- the application of national standards as appropriate.

Methodology

128. The RICS professional guidance Financial viability in planning: GN 94/2012 states:

'*It is accepted practice that a residual valuation model is most often used.*

This approach uses various inputs to establish the Gross Development Value (GDV) from which the Gross Development Cost is deducted.

GDC can include a Site Value as a fixed figure resulting in the developer's residual profit (return) becoming the output which is then considered against a benchmark to assess viability. Alternatively, the developer's return (profit) is an adopted input to GDC, leaving a residual land value as an output from which to benchmark viability i.e. being greater or less than what would be considered an acceptable Site Value.'

129. This Appraisal assesses:

- the site or land value as a fixed cost where the value assessed is the benchmark land value,
- depending on the Typology, the developers profit for market housing is assessed at 17.5% or 20% of revenue, 6% of revenue for all Affordable dwellings irrespective of tenure type, and
- once the above has been established, the workbooks for each Typology will identify either a surplus or deficit.

Process Undertaken

130. There are broadly 3 stages undertaken these are:

Stage 1
Establish each Typology input parameters including revenue and costs i.e.

<u>The Assessment of Gross Development Value (Revenue)</u>

i. Evidence based study of sales values for each of the Typologies general localities, and
ii. Application of findings against each dwelling type considered.

<u>The Assessment of Gross Development Costs</u>

i. Evidence based assessment of all costs incurred where available i.e. land value, construction costs etc.,
ii. For elements of the GDC where no evidence is available, we used practitioner judgement in collaboration with industry professionals and the client,
iii. Application of planning policy costs against the notional Typology, and
iv. Assessment of an acceptable developers return (profit) for each Typology.

Stage 2

Identify the appropriate Benchmark Land Value for each notional Typology in accordance with current NPPF guidance that is to identify the minimum land value which must reasonably incentivise a landowner to release land for development.

Stage 3

Assess various scenarios to assess/test the extent of viability, in this Viability Appraisal the scenarios tested are a reduction in revenue and an increase in build costs. All other elements including affordable housing and developers profit remain the same.

<u>Analysis of results</u>

i. Establish whether the Typologies assessed were viable,
ii. If not, why not?
iii. What are the sensitivity thresholds?

Professional Input and Judgement

131. The RICS professional guidance Financial viability in planning: GN 94/2012 states that:

'*Valuation and formulating appropriate judgements is an intrinsic part of appraisals that contain a significant number of variables. These variables may change over time and will reflect the movement in the property market generally. The appraisal date should therefore be clearly stated and inevitable uncertainty addressed through sensitivity or similar analysis*.

It therefore falls to the practitioner to decide in each case if the advice being provided falls within the ambit of the RICS Valuation – Professional Standards (Red Book) or its exceptions'.

132. This guidance is currently under review to reflect changes made to the 2019 National Planning Policy Framework and the updated Planning Policy Guidance in May 2019. In May 2019, the RICS issued a mandatory Professional Statement: Financial viability in planning: conduct and reporting May 2019 (PS). This requires the practitioner to formally state that he/she has complied with the Professional Statement. Please see the beginning of this report for a detailed statement.

133. In practice and application, the 'Harman Guidance' suggests that a collaborative approach is made at this stage of the viability testing process, so the assumptions made have been discussed and agreed with the client and its representative accordingly. This 'collaborative' approach is taken as a necessary step at this stage of the 'viability in planning' process. The author of this report seeks to apply the mandatory requirements of the RICS, where the author feels there may be disparity between the two publications this will be stated to ensure transparency.

134. With regard to this Viability Appraisal the practitioner has sought additional professional advice and client instructions where considered necessary.

135. For avoidance of doubt this viability study constitutes non-Red Book advice only for the following reasons that:

- Each Typology assessed is hypothetical,
- There are many broad assumptions made,
- Averages are applied, and
- There is no specific valuation date rather a report date reflecting data sourced over time although the data sourced has been updated to reflect the date of the report.

136. The information provided below provides reasoning and justification underpinning the data used in the viability appraisals together with:

- Additional commentary,
- Supporting evidence where relevant, and
- Any specific caveats or limitations if necessary.

137. It is important for the readers of this report to understand the context and limitations of these high-level assessments.

Gross Development Value (GDV)

MARKET REVENUE - Residential Market, Research and Data Applied

Interim Study

138. The Interim Study provided text regarding the wider economy and local market conditions which sought to place the assessment of market revenue applied against the notional Typologies in context. In particular '*The RICS September 2019: UK Residential Market Survey*' was referred to.

139. At the time there was considerable market uncertainty surrounding Brexit.

140. With regard to the Interim Study an updated assessment of new build asking prices together with analysis of more recent known sales was undertaken using web based information such as Rightmove, Zoopla, NetHouse Prices and other practitioner knowledge.

141. The findings were then applied to each of the Typology locations to arrive at a potential sales rate per m² for each of the property types. The analysis of sales prices was undertaken over the spring/summer of 2019.

142. In order to help place this research in context and to check the house prices, web based sites – plumplot and zoopla were viewed to see what they considered the average house prices to be in Norfolk at the time.

143. The National Office of Statistics UK House Price Index identified differences between Norwich, South Norfolk and Broadland for new build properties, with an average of £300,000 being achieved in South Norfolk, marginally less at £300,000 in Broadland with both achieving higher prices for new build. In Norwich however, average house prices appear to have fallen to just less than £200,000 where existing property values are greater than new build.

144. Generally South Norfolk marginally outperformed Broadland followed by Norwich achieving less than the Norfolk average. All areas perform less well than England and Wales.

145. Looking at the average figures per detached/semi/terrace and flats for each Authority, flats achieve the lowest average price per dwelling, detached achieve the highest rates per dwelling. When assessing these averages against the sales figures employed in the Interim Study they are broadly in line given the high level nature of these assessments. It should be noted however that property prices are not particularly stable and in line with the market commentary there is scope for future prices to fall, conversely prices may rise.

146. The application of this researched data therefore was to apply an average potential sales rate used per dwelling type per Typology. The rates applied were as follows:

- 2 bed house range from £225,000 to £255,000
- 3 bed house range from £295,000 to £320,000
- 4 bed house range from £360,000 to £385,000
- 1, 2 & 3 bed Flats to range from £175,000 to £220,000

Consultation Comments
147. The key issues raised were:

- Considered the sales rates to be excessive,
- No evidence to support the figures had been provided,
- That there was no apparent research into locational factors or house type i.e. between detached, semi-detached, terraces etc

Response
148. The consultees comments were considered, and it was concluded that:

- Additional sold house prices analysis would be undertaken,
- Further analysis of prevailing sales rates for new build properties,
- The findings would be applied to the notional Typology appraisals,
- That evidence would be provided to demonstrate what analysis has been undertaken, and
- That the market data would reflect the economic position and market activity as at the date this third study was being prepared i.e. November 2020.

Research
149. With the response to the consultation comments in mind the following was undertaken within the GNLP area:

- Market overview,
- Assessment of the current asking prices in the new build market using Rightmove and developers own web sites,
- Assessment of recently sold house price data from publicly accessible sources using Land Registry information, and
- Knowledge gained with regard to recent Critical Appraisals undertaken by landowners/developers/applicants.

150. The data gathered was analysed to assess averages in the following way:

- All sold prices,
- Sold prices by dwelling type,
- Sold prices by GIA range,
- Asking prices by dwelling type,
- Current information held by the Consultancy regarding recent site-specific Critical Appraisals.

Market Overview
151. The November 2020 RICS UK Residential Survey[16] results - *remain consistent with a solid trend in sales activity across the market, even if the sharp growth in buyer demand reported over recent months appears to be losing a bit of steam. For the time being, prices continue to be driven sharply higher in most parts of the UK, although near-term expectations for both prices and transactions point to a more moderate picture emerging over the coming months.*

At the national level, a net balance of +27% of respondents cited an increase in new buyer enquiries during November. While still comfortably positive, this latest return is down from a figure +42% in October and has now eased in four consecutive months following the recent high of +75% posted in July.

Alongside this, fresh listings coming onto the sales market continued to rise, evidenced by a net balance of +16% of contributors noting an increase in November. As such, this marks the sixth month in succession in which new instructions have picked up at the headline level, albeit the latest monthly rise reported was the smallest throughout this stretch (in net balance terms).

Meanwhile, a headline net balance of +25% of survey participants saw an increase in agreed sales over the month (compared to a reading of +41% in October). When disaggregated, sales continue to rise across most parts of the UK according to survey feedback.

Looking ahead, near term sales expectations have now turned broadly neutral at the national level. The headline net balance slipped from +15% in October to -4% in the latest returns, pointing to a levelling out in sales over the coming three months. Further ahead, at the twelve-month horizon, sales expectations remain negative, with a net balance of -21% of respondents foreseeing weaker sales volumes next year. Comments left by contributors suggest this downbeat assessment is attributable to the negative employment outlook as well as the withdrawal of the Stamp Duty holiday after March 2021.

Turning to house prices, respondents continue to report a significant degree of upward pressure currently, with the latest net balance coming in at +66% at the national level (broadly unchanged from +67% in October). Strong momentum behind house price inflation is being cited across virtually all parts of the UK, led by especially strong feedback in Wales and the South West of England. Interestingly although prices are reported to be rising marginally in London, the capital does stand out as having the softest net balance by some margin. Indeed, the latest figure across the capital stands at +9% compared to a national net balance of +76% when London is excluded.

Back at the UK-wide level, near term price expectations continue to signal a more moderate pace of price growth coming through over the next three months, with the latest net balance standing at +13%. That said, expectations strengthened slightly regarding the outlook for the year ahead, as a net balance of +20% of respondents now envisage prices rising over the next twelve months (up from +8% in previously).

New Build Sold House Prices

152. The sold house prices data is generally limited to the 2020 data collected for most locations in the GNDP area where new build is located. Earlier information is also shown where it is available. The data assessed is also likely to include Affordable Homeownership properties given the significant reduced rate per sqm, the impact will be to lower the averages and therefore due consideration should be given to the rates chosen.

153. The reason for limiting the analysis to 2020 is to avoid using long term data where in this current unprecedented economic climate that data would unlikely provide a true picture of the current or future property market. The one downside of this approach however is that there is often a time delay in the Land Registry[17] uploading very recently sold property data. This is the reason why asking prices for new build properties were also assessed in order to provide a clear picture at the date this report was compiled.

154. It should also be noted that the data gathered was automatically updated to provide an average 'market rate' i.e. to the date the data was taken at source, rather than analyse the sold house prices directly.

155. This automated update assumes that the provider has applied the uplift/decrease accurately, this has not been verified.

156. Please note that the second-hand market has not been assessed, this is because the Typologies relate to new build developments of increasing scale.

Asking Prices

157. This was a simple assessment of current market activity for new build properties within the GNDP area and assessment of the prevailing asking prices per sqm where it was possible to deduce.

158. Please note however that no account is made for any relevant Government or housebuilder incentives.

Developer Appraisals

159. This assessment was also a simple assessment of what agents / applicants / developers / landowners consider the GDV to be of their proposed developments. Given that these were produced to establish whether a scheme is viable or not, their indicative rates per sqm could be a little too high or a little too low depending on what the overall objective might be. Although no weight was given directly to these appraisals in assessing notional GDV rate per sqm in this particular context, it nevertheless provided a 'feel' for agents / applicants / developers / landowners current assessment of the market.

160. Please note that while knowledge has been gained regarding developer led appraisals for specific schemes, details will remain confidential unless explicit written approval has been provided to enable disclosure.

Review

161. The RICS November UK Residential Survey indicates that housing market activity remains solid and that house price growth is likely to be sustained over the next 12 months, this is a far more positive prediction than could have been considered earlier in the year. However, 12 months is a long time and it is so difficult to gauge just how Covid and at the time this Viability Appraisal is being undertaken, what trade relationship the UK will have with Europe. The outlook over the next 12 months and well into the Plan period is therefore difficult to predict.

162. However, the current market at the time this Viability Appraisal is being undertaken is buoyant and it is considered amongst property professionals, recently assessed developer lead Appraisals and the assessment of researched data, that house prices are indeed increasing in the Greater Norwich area. There is also anecdotal evidence to suggest that migration into Norfolk from other parts of the country, mainly the south east, probably as a consequence of Covid is also helping to boost house prices.

163. The researched data is found in Appendix E and while the Practitioner assessment is more a subjective, rather than a purely scientific approach which would not necessarily reflect the emotive nature of property acquisition, the potential for deviant data sets to adversely affect the averages assessed or current market conditions. This does not mean that the averages generated from the data sets are disregarded, rather that, the averages generated form part of the overall picture of the current property market in the GNDP area.

164. The sales rates applied therefore are considered 'broadly' to reflect the locations and houses/flat types of the 11 Typologies. Sensitivity testing the sales rate at minus 5% will assist in demonstrating the resilience or otherwise of the sales/revenue rates applied to establish viability thresholds.

165. Therefore, as a consequence of the further research and the expectation to bring this report up to date, the sales rates have been adjusted per Typology from the Interim Study.

Sales range from £2,950 per sqm to £3,750 per sqm

166. The notional sales rates used to assess the GDV are shown on in the Summary also found in Appendix E.

AFFORDABLE HOUSING REVENUE – Research and Data applied

Interim Study
167. As stated in the Interim Study the provision and level of affordable housing is planning policy driven.

168. It was stated that as there were several ways in which a Registered Provider (Registered Social Landlord or RSL) could acquire property, a generalised and simplistic approach was adopted. This was as follows.

Affordable Rented Tenure (ART) [*Homes for Rent – affordable rent and social rent*]
169. It was assumed that the affordable dwellings will be transferred to a suitable Registered Landlord at 60% of market value for the relevant house type.

170. In practice, the percentage adopted could be as low as 45% of the market value or as much as 65% of the market value for the house type depending on the particular circumstances of the Registered Provider (Registered Social Landlord or RSL) or a Local Authority assessed housing need.

171. The previous Hamson report cited 60% of market value following consultation with stakeholders and it is proposed to maintain this percentage at this stage of the viability assessment process.

Caveat: A change in the ART revenue can impact directly on scheme viability. Revenue can fluctuate for a number of reasons – alteration of dwelling numbers, the mix of dwellings proposed, the size of house types or where the tenure is switched to AHO or MV together with the timing of RSL payments etc. The alterations can be made by agreement with the Local Planning/Housing Authority.

Affordable Home Ownership (AHO) [*meaning Shared Equity and Shared Ownership Units*]
172. It was assumed that these dwellings will be sold at 75% of market value for the house type. In practice, the percentage adopted could be as low as 60% of the market value or as much as 80% of the market value for the house type.

173. Caveat: A change in the AHO revenue can impact directly on a scheme's viability. Revenue can fluctuate for a number of reasons – alteration of dwelling numbers, the mix of dwellings proposed, the size of house types or where the tenure is switched to ART or MV. The alterations can be made by agreement with the Local Planning/Housing Authority.

Consultee Comments

174. The main concerns expressed regarding the affordable housing revenue were that:

- The ART units assessed at 40% of market value for the equivalent unit, whereas the consultees considered that 55-60% was a more appropriate level,
- There was no justification or evidence provided within either the initial Hamson report or the Viability Study,
- That consideration should be given to Planning Agreements where they identify 45% for ART units and 60% for AHO units (termed intermediate),
- Another Local Authority area used a blended rate of 42% following analysis of a competitive bid to acquire affordable housing, and
- More generally the discount was unrealistic.

175. For clarification please note that the discount rates applied in the Viability Study were 60% for ART units and 75% for AHO units.

Research

176. While there appears to be some confusion regarding appropriate discount levels to be applied to the ART and the AHO units, further consultation with the GNDP area Housing Officers and recent developer appraisals were considered.

177. The findings were that the Registered Providers will pay for social housing at a rate dependent upon the circumstances of each scheme. In general, however, the Shared Equity units are sold at 75% of the equivalent market value price and the Shared Ownership around 65% to 70% of the equivalent market value price.

178. Regarding Homes for Rent the Affordable Rented Tenure dwellings this lies between 45% and 55%, the Social Rented Tenure dwellings may achieve less than these percentages however although this type of tenure has not been specifically assessed at this time.

179. Recent developer led appraisals for critical assessment should be acknowledged where the usual rate indicated is 45% for ART dwellings and 75% for AHO dwellings with some developers proposing a level of 80% for this tenure type.

Review

180. The review concludes that:

- The report will continue to refer to Shared Equity and Shared Ownership as Affordable Home Ownership (AHO) and refer to Homes for Rent or Affordable Rent as Affordable Rented Tenure (ART),
- It was not appropriate to apply a blended rate, particularly where GNDP may wish to alter the percentage split between the ART and AHO units in the future together with further split of the AHO units between different tenure types, and
- Due consideration should be given to the three GNDP Housing Officers and their response in terms of what is currently being achieved by Registered Providers although actual evidence and details were not supplied.

Discount Applied:	**Affordable Rented Tenure (ART) at 55% (sold at 45% Mkt Value)** **Affordable Home Ownership (AHO) at 25% (sold at 75% of Mkt Value)**

Gross Development Costs (GDC)

Predevelopment and Property Standards relating to Cost

Interim Study

181. The following assumptions were made:

Site assembly – including third party rights are frequently required to enable a development to proceed; these may entail many legal agreements between the parties and statutory undertakers.

In all cases, it was assumed that any costs associated with 'site assembly' had already been incurred to a point where the landowner could sell or develop the site.

Pre-planning investigations – it was assumed that planning permission 'in principle without any onerous planning conditions' could be achieved for each of the Typologies proposed.

It is also assumed that the costs associated with 'pre-planning' as with 'site assembly' had already been incurred to a point where the landowner could sell or develop the site.

Property Standards – it was assumed that all relevant property construction standards for new build properties would be met within the costs stated. Where there were additional standards required, details were provided.

Other – any impact on the overall development of the 'buy to let' market or other housing specialisms were disregarded.

Response to Consultation

182. There were no specific consultee comments other than reference to property standards.

Review

183. No further review or changes is considered necessary to the assumptions made in the Interim Study.

184. The response to comments regarding Property Standards i.e. is there enough cost within the appraisals to meet Building Regulations, is covered in the section below.

Construction Costs

Core Build Costs

Interim Study

185. The Interim Study proposed and applied build costs at £1,221 per m² to the notional GIA for each house type and £1,528 per m² applied to the apartments.

186. The Study made a number of assumptions:

- The rate per m² applied to the flats/apartments were uplifted by 7½% to account for communal areas,
- Garages as a separate item of cost, were not applied to any of the Typologies, it was assumed that where they were likely to be constructed that the cost was contained within the Site and Infrastructure costs,
- That there were no significant onerous abnormal costs affecting the hypothetical Typology build costs, and
- Small scheme adjustments are not necessary as the Typology numbers were 20 dwellings or above.

Consultation Comments

187. It was generally considered that the rate of £1,221/m² appeared to be reasonable when referenced against the BCIS for each of the three council areas, however as build costs frequently changed over time, that the then latest BCIS data April 2020 showed costs to be 5% higher than stated in the Interim Study.

Response

188. In line with the consultee comments and this report's revision, a further assessment of build costs was undertaken to bring the data used in line with the report's date; this included a review of the BCIS £/m² Study.

189. Consideration was also given to recent critical analysis of developer/applicants own appraisals, however, less weight will be given to this evidence due to their high reliance on the BCIS £/m² Study as at the date of their appraisals, although where developers own costs were expressed these tended to be marginally lower than the stated equivalent once preliminaries had been applied.

190. In addition, and to place construction costs in context, a review of the building forecast was also undertaken and this together with the findings of the local costs are provided below.

191. **Building Cost Current Market Information and Forecast: BCIS Summary and Forecast as at 1 December 2020[15] (extract)**

<u>Current Conditions:</u>

- *Tender prices in 3rd quarter 2020 fell by 1.5% compared with the previous quarter, and by 1.8% compared with a year earlier*
- *Materials prices rose by 0.3% in 3rd quarter 2020 compared with the previous quarter but fell by 0.3% compared with a year earlier*
- *Building costs rose by 0.3% in 3rd quarter 2020 compared with 2nd quarter 2020, but remained unchanged compared with a year earlier*

<u>Forecast over period (2nd quarter 2020 to 2nd quarter 2025):</u>

- *New construction output will rise by 10% (2024 compared with 2019)*
- *costs will rise by 16%*
- *tender prices will rise by 14%*
- *UK GDP will fall sharply in 2020 as a result of the Covid19 crisis, with a bounce back in 2021; GDP is then expected to grow by under 3% per annum over the remainder of the forecast period*
- *the annual general inflation rate is likely to be low in 2020, then rising by around 2% to 3% per annum over the remainder of the forecast period*
- *interest rates will rise gradually to 1.25% in 2024*
- *sterling exchange rates will remain depressed for the period of the Brexit negotiations*
- *the main risks to materials prices will be difficulty in obtaining materials during the Covid19 crisis, oil prices, tariffs on imports and sterling exchange rates*
- *the major nationally agreed wage awards are unlikely to increase over the next six months as the Covid19 virus crisis will dampen world demand*
- *the forecast is based on information available up to 23 October 2020.*

Review

192. It is the current cost information and inputs which are assessed and applied in this report as a 'snap shot' in time and does not therefore take into account inflation or what could happen in the future as stated in the BCIS Forecast above (extract); the full BCIS report provides greater detail of potential scenarios with regard to both Brexit and Covid 19.

193. The Table below identifies each of the Greater Norwich areas and the current BCIS assessed average build.

194. The data provided below goes into further detail than the Interim Study in line with other elements of this report.

195. It should be noted that it would not be unreasonable to consider that the major house builders of large developments would be in a position to make allowances for quantum and ability to have greater control over purchasing of raw materials and labour etc notwithstanding the comments made in the BCIS review.

BCIS Classification (Median):	Norwich	Broadland	South Norfolk
Estate Housing Generally (810.1)	£1,116 / m²	£1,163 / m²	£1,128 /m²
Flats (apartments) Generally (816.) Flats 6 storey's or above	£1,305 / m² £1,444 / m²	£1,252 / m² £1,505 / m²	£1,265 /m² NA

- *Rebased to Norwich, South Norfolk and Broadland*
- *Dated November 2020*
- *Application of the Median*
- *Includes contractor preliminaries and Overhead and Profit but excludes external works*

196. It can be seen from the above Table that build costs have fallen since the time the Interim Study was prepared when £1,221/m² was adopted. These appraisals will use an updated rate to each notional Typology.

197. Appendix F identifies the BCIS data applied more specifically to the location of the Typology in so far as it is possible given the wide range of locations within each notional Typology. Where necessary an average has been taken.

198. Please note that while the consultees considered that a more appropriate way to assess the build costs would be to assess an average by taking each dwelling type, the BCIS does apply a general rate to cover the range of building types, there is no reason not to continue with this approach given the generality of these assessments.

199. With regard to the flats/apartments, as with the Interim Study, an additional 7.5% will be applied to the build cost, although in practice a 7.5% increase could equally be applied to the GIA.

200. Provisos:

The Typologies assessed do not account for any site specific or potential onerous costs such as:

- Poor ground conditions – expensive foundation solutions required,
- Ground water protection – e.g. zones around Bowthorpe, or
- Flood Risk Areas/Zones.

Garage Costs of Construction

Interim Study
201. Costs associated with garages were assumed to be included within the Siteworks and Infrastructure percentage allowance.

Consultation Comments
202. Consultees noted that the external allowance included garages which, if remained as stated would take up circa 30% of the infrastructure allowance which was insufficient to cover costs.

203. It was also commented that garages are usually included in build costs but not infrastructure costs, if this premise is to remain then the allowance should be increased.

Response
204. More recently costs associated with the construction of garages even in high level appraisals are being separately identified within viability or development appraisals. In line with current industry practice these costs are now separately shown.

205. The cost shown will enable a standard single detached garage of 21m² to be constructed, any economies of scale regarding the provision of double garages is disregarded for this level of assessment.

206. Single garages will be provided to all market 3 bedroomed dwellings and double garages to all market 4 bed roomed dwellings. There are some exceptions to the centrally located Typologies.

207. No account is taken of potential integral garages which may be an appropriate form of development for some of the centrally located Typologies.

Review
208. Costs associated with garages can range considerably depending on the developers own preference for fit out etc and whether they consider the costs as part of the External or Site works. As a consequence, £600 per sqm is considered to be a mid to high range specification.

209. It is important to ensure that there is no potential double counting.

210. Should viability be marginal, and all other costs are considered to be robust, then Sensitivity testing costs associated with the garages could be undertaken.

Build Costs Applied £600/m²

GNLP Policy 2 – Sustainable Communities, cost implications

Interim Study

211. The Interim Study referred to the 2017 Hamson report with regard to 'water, energy and access' and how GNDP were looking to incorporate national reviews such as the Housing Standards Review, Fixing the Foundations Productivity Report[18], BREEAM[19] etc. with the objective of 'driving up standards leading to more sustainable communities'.

212. The reasoning behind these proposed new policies is well documented in the draft Local Plan. The Hamson report assessed what the impact on cost delivering these higher standards would be and these sums were incorporated into the Interim Study appraisals. The sums assessed were:

- Water at £9 per dwelling to achieve optional higher efficiency,
- Energy at £5,000 per dwelling to exceed Part L Building Regulations, and
- Access at £940 for 20% of dwellings only.

Consultee Comments

213. It was considered that costs associated with addressing Part L of the 2020 Building Regulations together with M4(2) and M3(3) had not been adequately assessed and that as a consequence the construction costs would be lower than they should be.

Response

214. The level of cost attributed to 'water, energy and access' has been reviewed and is considered to meet current requirements for both Part L of the Building Regulations and GNDP policy requirements. It should be noted that costs associated with the 'water and energy' Policy have not altered since the initial Hamson report, the 'access' costs however have increased to £1,400 for 20% of dwellings per Typology.

215. While it is considered that the £5,000 per dwelling for energy efficiency measures was and continues to exceed the Part L requirements, nevertheless the following was considered:

- Would it be appropriate to increase the rate applied by inflation on the understanding the base price is an acceptable amount, or
- Should the sum remain the same on the basis that technologies will over time become part of the normal standard of construction cost and cheaper to install?

216. On balance it was considered that one would negate the other and therefore the cost implications in this section should not change.

Efficiency measures applied:	**Water – 100% homes at £9.00 per dw** **Energy – 100% homes at £5,000 per dw** **Access – 20% of homes at £1,400 per dw**

External Works and Infrastructure (formerly Siteworks and Infrastructure)

Interim Study

217. In this section it was proposed to follow the Harman guidance with regard to site wide infrastructure costs by seeking to apply a suitable sum for the Typology being assessed where the sum included would cover:

- Site wide infrastructure,
- Off-site works,
- Site works per plot including garages,
- Landscaping,
- Additional utility connections such as sub stations, and
- Contractor overhead and profit.

218. The rate applied to the core build costs were assumed to be between 10% and 20% dependant on Typology.

Consultee Comments

219. There were several comments relating to Siteworks and Infrastructure, these were:

- It is more usual to refer to Infrastructure Costs as External Works,
- That the Interim Study applied between 10% and 20% dependant on Typology and essentially the larger the site the greater the infrastructure cost,
- It was also noted that the allowance included garages which if remained as stated would take up circa 30% of the infrastructure allowance,
- Garages are usually included in build costs but not infrastructure costs, but if to remain then the allowance should be increased,
- On the assumption that garages were not included in this allowance that 10% would only apply to the apartment schemes where external works are minimal,
- Any housing scheme would require roads, drives, drainage etc and only in exceptional cases would the infrastructure/external works costs fall below 15%, and
- No evidence was produced to support the estimate of infrastructure costs.

Response

220. This element of the construction costs was reconsidered following the consultee comments, with attention to:

- Terminology and what is included within this section,
- Treatment of garages, and
- The percentage applied to each Typology.

221. It is particularly difficult to provide an accurate assessment of Site Works when the locations and type/mix of development is wide ranging. The percentage applied to build costs is therefore a broad approach.

222. The greater percentages used in the Interim Study for the larger notional developments was considered to go some way in accounting for the extensive sitewide infrastructure such as reinforcement of utilities and services at national level. Whereas the smaller sites would not require the same level of service and utilities input other than a typical semi-serviced site.

Review

223. Several adjustments have been made considering the consultee comments and review of the general approach in the assessment of External Works.

224. One of the key adjustments is to provide a separate line for costs associated with the construction of garages. With this adjustment however, the External Works percentage applied should be reduced to reflect this significant cost, bearing in mind that the percentage will also be applied to the garage costs.

225. However, costs associated with External Works also required adjusting in light of recent knowledge of developer appraisals, although as with the assessment of the GDV per sqm, due consideration is made to the objectives of the developer led appraisals in assessing what level the External Works percentage should be applied to the 11 Typologies.

226. Therefore:

- The relevant percentage is applied to all build costs – demolition, core build, garages and Policy requirements (where relevant),
- The larger sites will incur greater sitewide infrastructure costs including providing and equipping all or part of the on-site open space requirements,
- Typology's 4 and 7 are fully flatted schemes and therefore the External Works percentage should be reduced to reflect this (T7 would be say 25% based on size but reduced to 20% to reflect flats).

227. External Works are assumed to include:

- Site wide infrastructure,
- Off-site works,
- Site works per plot,
- Landscaping,
- Any utility connections,
- Contractor overhead and profit (although BCIS state this is included within the core build costs),
- SUDS,
- Establishment of any on-site open space, children's play area etc,
- Warranties and other registrations,
- This list is not necessarily exhaustive but to cover most costs of physical development.

Rates Applied:	**15% to Typology 4** **20% to Typologies 1 – 3 and 5 - 7** **25% to Typologies 8 and 9** **30% to Typologies 10 and 11**

228. Please note that it is assumed that no government or quasi government funding is available to enable the wider site works to be developed particularly regarding the larger sites. If this is the case, then those Typologies should be reviewed.

229. In addition, as build costs fluctuate so will the External Works sum, this may not always be the most appropriate way, however these are high level assessments of notional Typologies and is the general approach of consistency which is relevant.

230. It is also assumed that there are no abnormal or onerous costs associated with development of any of the Typologies.

Specific assumptions relating to Brownfield sites

Interim Study
231. An allowance was made in the Interim Study of £50,000 for Typologies 2 and 5 and an allowance of £200,000 for Typology 6 to cover remediation. All other Typologies were assumed to be greenfield sites and therefore capable of development without any significant onerous costs such as demolition or clean-up.

Consultation Comments
232. Area wide viability assessments should attempt to reflect all costs although it is accepted that not all site-specific costs can be accounted for.

233. The 2017 Hamson report made an allowance of 7% on net build costs to allow for extra costs of brownfield where as the Interim Study this had been removed and replaced with either £50,000 or £200,000 depending on location of the Typology.

234. A concern is raised that the non-application of a suitable allowance could lead to a significant 'hidden' reduction in overall build costs and that there was no evidence or justification made to the change in approach given.

Response
235. The intention of the brownfield allowance is to acknowledge that costs associated with typically central City sites although not exclusively, would be over and above the normal costs of site preparation.

236. It is particularly difficult to assess a cost associated with the remediation of notional brownfield site, the costs could vary widely and will be influenced by many risk factors such as ground conditions including water and the extent of any redundant buildings in a specified location.

237. The Homes and Communities Agency 'Guidance on dereliction, demolition and remediation costs'[20] reported in March 2015 the report provides a section on remediation costs which:

'can be used as a basis for an initial assessment of the potential cost of preparing sites affected by contamination'.

238. With regard to dereliction and demolition the section presents a range of costs which can be:

'used as a starting point for assessment of the potential costs of derelict sites and where demolition is required'.

239. While ranges of costs were provided in the HCA report, although now out of date, it is still difficult to provide a cost which could be considered to be an adequate allowance or each notional Typology, the allowance used in the appraisal could therefore be under inflated as much as over.

Review

240. This report therefore retains the assumption that an allowance should be made to reflect the potential for a degree of contamination and demolition of the notional Typologies located within the City, and acknowledges that a greater allowance should be made to reflect the brownfield nature of the site.

Brownfield Allowance Applied:	**£100,000 to Typology 4, and £200,000 to Typology 7**

241. Please note that:

- The above equates to £400,000 per Ha (circa £162,000 per acre),
- which in practice is likely to vary significantly from site to site, and
- External Works percentage is also applied to this sum.

Contingency

Interim Study

242. The Interim Study applied a rate of 3% of construction costs where the construction costs included:

- Core build costs,
- Water policy costs,
- Energy policy costs,
- Access policy costs where relevant,
- Site and Infrastructure, and
- Brownfield costs if applicable.

Consultation Comments

243. It was noted that the contingency rate was reduced from 5% in the 2017 Hamson report to 3% in the Interim Study. It was noted that no justification was given although 3% is usually adopted for area wide and site-specific viability.

Response

Contingency Applied:	**3% of the total construction costs**

244. While there was a reduction from the initial Hamson report in 2017 to 3%, the basis of this reduction was to bring the rate in line with the general approach for area wide viability assessments, as a consequence of this, there will no change from the previous Interim Study.

245. The following is assumed to be included within the Contingency costs, this is a slight change in assumptions made in the Interim Study:

- Brownfield allowance (where relevant),
- Core build costs,
- Garages,
- Water policy costs,
- Energy policy costs, and
- Access policy costs.

Professional Fees

Interim Study

246. The 2017 Hamson report applied fees at a total of 10% broken down as follows:

- Architectural fees at 6%,
- Planning Consultancy at 1%,
- Quantity Surveying fees at 0.5%, and
- other Consultancy fees at 2.5%

247. The Interim Study retained 10% although indicated that the level was considered higher than the then industry standard. The Study went onto comment that if the percentage also incorporated Enabling Fees such as Planning, Archaeology, Environmental and other specialist reports etc. to site commencement as well as the Statutory Development Fees, Design Fees, Project Management etc. then, 10% would be an acceptable level of Professional Fees.

Consultation Comments

248. There were no comments with regard to the level of professional fees.

Review

249. No change.

Professional Fees:	**10% to all Typologies**

250. In light of recent developer lead appraisals for critical assessment the level of fees range from 7% to 10% with the most frequent rate applied of 8%.

251. Although there is a range of professional fees expressed in practice which will be dependent on the specific scheme, the higher rate of 10% is applied to account for all fees rather than just consultancy. It is assumed that costs under this heading would be:

- Consultancy fees – planners, architects, QS etc
- Enabling costs and design development
- Other relevant fees incurred.

Planning Policy Requirements – Planning Obligations

GNLP Policy 3 – Environmental Protection and Enhancement

252. The draft Plan provides the reasoning and references to the supporting studies undertaken which underpin the three elements of Environmental Protection and Enhancement which will directly impact on costs associated with a new development.

253. The precise requirements for formal and informal open space however will vary from site to site and in practice each Planning Authority will seek to apply their own policies.

254. The assumptions used are therefore representative and are deemed suitable for general plan-making viability testing. See Appendix G for a Summary of Planning Contributions.

Visitor Pressure Tariff (RAMS) - £205 per dwelling

Interim Study

255. The Interim Study sought to reflect the impact of developments both individually and collectively on environmentally sensitive locations and Planning Authorities were expected to address this through the Local Plan. GNDP therefore proposed a Visitor Pressure Tariff to be levied on all new developments. Although this policy was not yet adopted, it was incorporated within the appraisals.

256. Payments would go towards organisations such as the RSPB or the Norfolk Wildlife Trust to maintain ecologically important sites that would otherwise be harmed by visitor pressure.

Consultee Comments

257. No comments made.

Review

258. A small change of an additional £5.00 per dwelling is proposed in line with the draft Plan.

Formal Open Space and Play Areas - 2.5 Ha per 1,000 population
includes children's place space, older children's play, playing pitches, adult recreation space, and allotments

Interim Study
259. In order to assess the payments due under policy RL1 of Broadland Development Managements Policies (2015), Broadland Council provided calculation tables (updated to June 2019).

260. The criteria of each Typology was applied and the relevant sum calculated accordingly; the resultant figures have been applied to the viability assessments unless adjusted (manually) to account for all or some of the general open space and play areas to be provided on site.

261. While these planning obligations relate to Broadland Council, they were applied to all Typologies wherever they may be located.

262. The payments were programmed to be paid on first occupation.

263. These planning obligations were not accounted for in the previous HBS report but were assessed to be a legitimate cost which each of the Typologies would incur.

264. Caveat: The figures would alter each year.

Consultee Comments
265. No comments made.

Review
266. An adjustment made is to the Broadland base table costs provided for the Interim Study, in order to bring costs up to date by using the Consumer Prices Index indices (June 2019 to October 2020).

<u>BCIS Summary as at November 2020:</u>
The Consumer Prices Index (CPI), the government's measure of inflation, rose by 0.6% in September 2020 compared with a year earlier, up from 0.2% in the previous month

Informal Open Space
incorporates informal open space and
Suitable Alternative Natural Green Space (SANGS) - 2 Ha per 1,000 population or commuted sum

Interim Study
267. In order to assess that payment due under Policy EN3 of Broadland Development Managements Policies (2015), Broadland Council provided calculation tables (updated to June 2019).

268. The criteria of each Typology were applied and calculated accordingly; the resultant figures were applied to the viability assessments unless adjusted (manually) to account for all or some of the Suitable Alternative Natural Green Space (SANGS) to be provided on site.

269. While these planning obligations relate to Broadland Council, they apply to all Typologies wherever they may be located.

270. The payments were programmed to be paid on first occupation.

271. These planning obligations were not accounted for in the previous HBS report but were assessed as being a legitimate cost which each of the Typologies would incur.

272. Caveat: The figures will alter each year.

Consultee Comments
273. No comments made.

Review
274. Two adjustments have been made:

- The GNDP have adjusted this allowance to apply a consistent approach to each Local Authority area. In practice this policy only relates to Broadland at 4 Ha per 1000 head of population while South Norfolk and Norwich do not seek any commuted sum. Their proposals are to seek 2 Ha per 1000 head of population across all of the GNDP Council areas, and
- The Broadland base tables provided for the Interim Study are amended accordingly and updated to October 2020 by using the Consumer Prices Index indices (June 2019 to October 2020).

<u>BCIS Summary as at November 2020:</u>
The Consumer Prices Index (CPI), the government's measure of inflation, rose by 0.6% in September 2020 compared with a year earlier, up from 0.2% in the previous month.

GNLP Policy 4 – Strategic Infrastructure (Community Infrastructure Levy)

Draft Local Plan text
275. *[226] 'As set out in the vision and objectives of the Local Plan and the Delivery Statement, delivery of new infrastructure is a priority. It provides benefits for new and existing communities and is essential to ensure growth is sustainable'.*

[228] 'Needs may change over time, particularly because of technological changes, the delivery of development will not necessarily be dependent on the specific infrastructure identified'.

[229] 'To promote good local access to facilities, the policy set a requirement for development to provide or support local infrastructure, services and facilities. This can be directly through providing infrastructure or land, or indirectly through financial contributions which can include providing good access to existing services or facilities.

[230] 'Therefore covers strategic transport, energy, water, health and education needs with a cross reference to other polices which cover strategic green infrastructure and more local needs'.

276. Funds collected via Community Infrastructure Levy (CIL) will make an important contribution, and this obligation is fully costed in to the Viability Study.

278. Energy and Water are referenced in the section above.

Interim Study
279. CIL was calculated by multiplying the GIA of the market dwellings by the relevant CIL rate per m^2.

280. The relevant CIL rate per m^2 applied was a flat rate of £106.47/m^2 although this was the highest rate for the GNDP area.

281. The higher rate was applied for consistency of approach.

Consultee Comments
282. No comments made.

Review
283. In line with other adjustments to this report in light of general comments, the application of CIL has also been adjusted to more adequately reflect the Typology locations. Where the Typology covers locations across the GNDP area the CIL allocated is considered to be the best fit with the higher rate taken, as a consequence the following are applied.

284. For clarification CIL is applied to the GIA of:

- All market dwellings,
- Affordable Homeownership dwellings, and
- Garages.

Application:	**Zone A - £111.83 per m²** **Zone B - £74.55 per m²** **Flats 6+ storey's - £106.00 per m²**

285. The timing of payments within the appraisals are in accordance with the Instalment Schedule which can be found on the various Planning Portals and, in practice the tenure split within the affordable homeownership bracket may achieve exempt status. The above is considered to be the worst-case scenario.

Other Obligations or Outgoings

Marketing

Interim Study
286. Generally the approach taken was to make provision for 1 showroom to every 50 dwellings at a cost of £25,000 per showroom.

Consultee Comments
287. The comment made stated that while the Study did allow for showrooms in certain circumstances this was based on unjustified, incomprehensible and which bore no resemblance to reality of marketing costs on all sites.

Response
288. In light of the consultee comments, further investigations were made to enable a more robust conclusion to be reached with regard to what the costs of marketing over and above the general agent's sale fees usually applied.

Review
289. While it has not been possible to obtain the full cost of marketing for large scale development from major house builders, it has been possible from recent developer led assessments to glean what a typical marketing allowance might be for larger schemes.

290. With regard to smaller developments there is no additional marketing allowance on the basis that the sales agents fee will be levied at a higher rate that the larger development sites.

291. Taking into account the size of some Typologies and that Phasing has been disregarded, it was felt that there could be a degree of economies of scale. The following was therefore assessed.

Allowance to be applied:	**Typologies 1 – 4, no additional marketing allowance** **Typologies 5 and 6 – 1 showroom** **Typologies 7 and 8 – 2 showrooms** **Typology 9 – 5 showrooms** **Typology 10 – 6 showrooms** **Typology 11 – 10 showrooms**

Direct Sales and Legal Fees

Interim Study

292. The Interim Study applied what was considered to be general industry standard rates at:

- Agent fees at 1.5% on market sales only,
- Legal fees at 0.25% for market sales, and
- Legal fees to cover the transfer of both the AHO and ART units is dependent on size of the transfer, these currently range from £5,000 to £12,500.

293. These fees are shown as being deducted directly from the capital receipts.

294. The previous Hamson report assumed 3.5% of all capital receipts. There was no direct analysis between the two reports as it is assumed that the inputs under 'Sales Fees' are relevant as at the date of the Interim Study.

Consultee Comments

295. The key comments were that:

- There was no justification for a 50% reduction in sales fees from the Hamson report which had an allowance of 3.5% and the Interim Study at 1.75%,
- The consultee considers that there should be a total of 3% to cover agents, marketing and legal costs of sale.

Response

296. It is considered that the Hamson report levels of fees proposed were no longer current at the time the Interim Study was produced. The level of fees for the market dwellings was based on general industry practice of which could be broadly applied to all the assessed Typologies.

297. In order to ensure the sales and legal fees are considered to be fair and reasonable for both the market dwellings and the affordable housing disposals, further assessment of recent developer lead appraisal inputs was considered.

298. The conclusion is to apply two rates, the lower rate to Typologies which have additional marketing costs and a higher rate applied to those Typologies with no additional marketing costs.

Review

299. The conclusion is to apply two rates, the lower rate to Typologies which have additional marketing costs and a higher rate applied to those Typologies with no additional marketing costs.

Fees:	**Market sales agent fee at 1.25% or 1.5%** **Market legal fees at 0.25%** **Affordable house agent fees – nil** **Affordable house legal fees at 0.35%**

Other Appraisal Elements

Interest Rate Applied – 6%

Interim Study

300. 6.5% was applied to include bank arrangement costs.

301. The rate has been applied quarterly on debt balances and assumes that each Typology assessed requires 100% funding i.e. no use of any equity funding which might be available to some developers.

302. In practice developers will be able to achieve more favourable or indeed less favourable rates depending on their own circumstances including track record.

303. In addition, applying the interest per month may also achieve a small saving and improve cash flow.

304. Appling an Accrual Rate may also achieve a small saving and improve cash flow.

305. While 6.5% may be considered high given the prevailing bank rates and the prospect of a further half point reduction. The assumption is to charge on all funds employed and therefore funding of the whole project could be considered risky.

Consultee Comments

306. No comments made.

Review

307. Base interest rates continue to be at a record low, with this in mind and the review of the Interim Study, the interest rate applied will be reduced to 6%. While this is not as low as it could be, there are bank arrangement and monitoring fees that are likely to be charged, this higher rate will incorporate any charges to be made.

308. To place in context the BCIS Summary and Forecast as at 1 December 2020 states.

'In September 2020, the Bank of England Monetary Policy Committee (MPC) agreed to maintain interest rates at 0.1%.

The Treasury report that the average of independent forecasts for interest rates shows rates remaining at 0.1% in 2020, rising to 0.25% in 2021, 0.75% in 2022, 1.0% in 2023 and 1.25% in 2024.'

Sales Disposal Programme
Market and Affordable Homeownership say 2 – 4 dwellings per month
Affordable Rented Tenure in 2 or 4 equal instalments depending on size

Interim Study
309. The Interim Study averaged the hypothetical sales over time rather than any one dwelling at a time. This is not an uncommon approach when proposed developments are at the embryonic or concept stage.

310. The development period tends to work on sales of 2 to 3 or 4 per month but this varies Typology to Typology.

311. With regard to the affordable rented dwellings, it is understood that Registered Landlords will pay in tranches which can assist in the schemes cash flow. With regard to this income the appraisals show 4 equal instalments across the lifetime of the Typology assessed.

312. No account was given with regard to the current drop off, of sales per month due the current economic climate and no account is given to a developer choosing to drop house prices significantly, with or without incentives, to maintain a decent sales rate per month.

313. Caveat: Should the sales rate per month significantly alter the impact is likely to be on cash flow, if sales are not meeting the 2 to 4 dwellings per month consistently this could ultimately affect viability if the Typology is deemed marginal.

Consultee Comments
314. No comments made.

Review
315. No changes but please note the larger notional Typology sites would in practice be Phased developments with a number of developers selling properties simultaneously.

Build Programme – in accordance with Typology size
2 - 4 dwellings per month after suitable lead in period

Interim Study
316. The construction costs were programmed in accordance with the scheme size and where the practitioner considered when the hypothetical payments were likely to be made.

317. No account was made for Phasing.

318. It was noted that as construction costs were one of the most significant costs any impact or variance on program could significantly and adversely affect the Typologies viability.

Consultee Comments
319. No comments made.

Review
320. No change but please note the larger notional Typology sites would in practice be Phased developments with a number of developers constructing properties simultaneously.

VAT

Interim Study
321. It was assumed that either VAT did not arise or that it could be recovered in full.

Consultation Comments
322. No comments made.

Review
323. No change.

Developers Profit

General Explanation
324. Where Income exceeds Cost then a level of profit is achieved, this is either expressed as a percentage of Profit on Cost or Profit on Revenue.

325. The Developers Profit or Return on capital employed is usually assessed at a level suitable for the risks the development might incur.

326. Risks can be many and varied.

327. While there is no one industry standard developers profit percentage, historically 20% has been applied on Cost (a lower percentage would be applied against Revenue on the assumption Revenue is greater than Cost) developers do accept different profit levels depending on their own organisations requirements, financial arrangements and their response to prevailing market conditions.

328. In accordance with viability guidance, it is suggested that between 15 and 20% of the gross development value is an acceptable level of profit for Viability Appraisals.

Interim Study
329. With regard to the GNLP Interim Study, 20% profit on revenue of the market dwellings was applied together with a 6% return on the sale of the affordable dwellings.

Consultation Comments
330. There were no comments specifically relating to Developers Profit.

Review

331. There continues to be a healthy debate across the industry around what represents an appropriate level of developers profit in viability appraisals. There is currently no definitive answer.

332. The 2018 guidance updated the PPG and NPPF guidance on viability to an assumption of 15% to 20% of GDV at the Plan making stage.

333. The current market evidence suggests that developers are increasingly applying rates from 15% to 17.5% profit on market revenue rather than seek a full 20% margin with a rate of 6% being applied to all affordable units.

334. This Viability Appraisal at the Plan making stage assesses developers profit as follows:

- maintain the 6% against the affordable revenue for all Typologies,
- maintain 20% against the market revenue for Typologies 1 – 4, and
- reduce the developers profit on revenue to 17.5% for Typologies 5 - 11

335. The reasoning is that evidence suggests developers accept the lower rate but in order to maintain a degree of balance the smaller notional developments of 20 dwellings or less should reflect the higher percentage.

336. Should viability be marginal, and all other costs are considered to be robust, then Sensitivity testing costs associated with the developers profit could be undertaken, this could also consider applying a higher percentage to Affordable Homeownership units although further research would need to be undertaken.

Developers Profit Applied:	**Market Dwellings 20% or 17.5%** **Affordable Home Ownership at 6%** **Affordable Rented Tenure at 6%**

Land Value (Site Value) and Associated Costs

Background – Benchmark Land Values

337. Viability guidance on land value for the purpose of viability assessments is defined as follows:

'*A benchmark land value should be established on the basis if the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus*'.'

338. The process of establishing a reasonable premium is:

'*an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross collaboration……Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Local Authorities can request data on the price paid for land (or the price expected to be paid through an option agreement*).'

339. Existing Use Value should be:

'*informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross check of benchmark land value but should not be used in place of benchmark land value.*

This evidence should be based upon developments which are fully compliant with emerging or up to date plan polices….where evidence is not available adjustments may be made.'

340. To understand how to arrive at the benchmark land value (as a fixed cost) where there is an incentive or premium payable to the landowner to ensure that land is released for development, the following should be considered:

Step 1 - all land has an existing use value (EUV) this may be agricultural or potentially commercial or industrial for brownfield sites together with the right to implement any permitted development. It does not include any 'hope value'. This value can be established by using direct comparable transactions obtained from a variety of sources such as Land Registry, web-based property data, auction results etc. and comparing and adjusting accordingly to the subject property.

Step 2 - assessment of the premium (the sum equating to the 'plus' in the EUV+) which is paid to the landowner as a reasonable incentive to bring the land forward for development.

341. There have been no further amendments to the guidance on Benchmark Land Values since the Interim Study was prepared.

GNDP Approach to Benchmark Land Values

Interim Study

342. There are three key elements influencing the land value benchmarking (Threshold Land Values) used within these viability assessments:

1. The Harman and other guidance to the assessment of land values as indicated above,
2. The outcome of a Workshop in February 2020, and
3. Prevailing market conditions around the date of these viability assessments.

343. The assumptions made in assessing the benchmark land value for each Typology are:

- Sites are capable of achieving planning permission,
- That the land has been adequately assembled if relevant,
- That there are no onerous third-party rights required or interests which may create a ransom situation,
- That there are no onerous ground conditions or contamination etc.(notwithstanding comments regarding the brownfield allowances),
- That the land can be adequately serviced (notwithstanding costs associated with strategic infrastructure for the larger sites), and
- That there are no other matters which might impact on the sites value.

344. The findings and conclusion of the 2017 Hamson report concluded that £300,000 to £600,000 per acre would be used even though it was clearly indicated that:

- there were larger development sites which might only attract £150,000 per acre while other locations could achieve far higher than £600,000 per acre,
- there were inherent difficulties in applying the right land value to the particular Typology, and
- should the land value per acre be applied to the gross area or the net area?

345. It was agreed following the consultation that:

- Further investigations and analysis regarding land values would be undertaken, these will continue to be a holistic approach given the nature of these viability assessments, the values were assessed per Typology,
- The benchmark land values will reflect the NPPF guidance 2019, and
- The benchmark land values will be applied to the Gross Area unless otherwise stated.

346. The Interim Study went on to consider the following in formulating the Benchmark Land Value which was considered to provide the landowner with an appropriate premium to existing use value and would reflect the minimum return at which a reasonable landowner would be willing to sell their land at:

- Actual land transactions and knowledge of unreported land deals or valuations,
- Land on the market at that time, and
- Market reports.

347. In considering what the appropriate benchmark land value (BLV) for each Typology was, the latest guidance contained within the NPPF has been applied and was established on the basis of the existing use value (EUV) of the land, plus a premium to the landowner. That is, the 'existing use value plus' approach.

348. It was assumed, other than for the Urban Typologies (2, 5 and 6) that the EUV is based upon agricultural values equating to £24,710 per Ha (£10,000 per acre). The premium was been assessed based upon a multiplier of the EUV of between 10 and 20 times. The multiplier applied to the EUV in each typology reflects the site size and density.

349. The Urban Typologies (2, 5 and 6) have been assessed based upon an assumed site value for each Typology to which a premium of 30% has been applied that is EUV+30%.

Consultee Response

350. These were as follows:

- Willingness of landowners to sell at a reduced rate had not been discussed,
- That the benchmark land values were unrealistic,
- The existing use value per acre for agricultural land was acceptable,
- Data evidence was not provided,
- No evidence to justify premiums applied was provided,
- The logic between applying a multiplier to some Typologies and a percentage uplift was not clear, and
- The BLV had reduced from £348,810 per acre to £247,000 per acre, why?

GNDP Response

351. In response to the Consultee comments the following seeks to address the issues raised.

<u>Willingness of landowners to sell at a reduced rate</u>

The principle of using Benchmark Land Values in viability appraisals is provided in the General section above. This Viability Appraisal seeks to follow the guidance provided rather than to challenge this principle. This Viability Appraisal is therefore silent on this matter.

<u>Unrealistic benchmark land values and data evidence was not provided</u>

The existing land values from which to uplift to create the BLV were considered to be the then current market rates for the notional Typologies. It is accepted however that no direct comparable evidence was produced to underpin the values used.

As a consequence, and in order to bring the EUV up to date, further research has been undertaken. See Appendix H and the Sensitivity Analysis section.

<u>Justification of premiums applied and logic of multipliers or percentage increases</u>

Viability guidance is silent on how to an appropriate premium should be established. Whilst a premium should suitably incentivise the landowner to release land for development, the landowner would also wish to have regard to the market. It should be noted that the Benchmark Land Value however assessed are invariably less than the market value of land with planning permission for residential development. If this were not the case, the land would be developed for the use which maximises its value.

Reduction of the BLV applied from the 2017 Hamson Report in the 2019 Interim Study

While no justification was provided for this reduction in the Interim Study, the EUV's is to be bought up to date and therefore the previous values used in both the 2017 Hamson and 2019 Interim Study are now superseded.

Review:

352. Step 1 - Research and investigations of EUV's to underpin the BLV considered:

- The Valuation Office Agency for policy purposes 2019 published in 2020, and
- Farmers Weekly current data.

353. With regard to Typologies 1 - 2, 5 - 6, 8 – 11, the existing use is assumed to be agricultural land.

354. Agricultural prices per acre are currently assessed at circa £22,240 per Ha acre (£9,000 to £9,400 per acre). This is less than the rate of £25,000 per Ha (£10,117 per acre) applied in the Interim Study. It is not however proposed to reduce the EUV given that the notional sites are assumed to be at the higher end regarding agricultural values. Should the rates reduce further however, the margin of viability would increase.

355. With regard to Typologies 3, 4 and 7 the EUV could be any potential use compatible with a urban environment – by the virtue of potentially coming forward for residential development (assuming outside of say London or Cambridge), the existing use could be say secondary commercial land which is underutilised, industrial land again in poor order or underutilised, land in mixed use which requires significant investment, or other random pockets of other underutilised or derelict land.

356. Obtaining recent land transactional information is notoriously difficult and while research has been undertaken the information is limited upon which to base a value for Norwich other than for residential development rather than existing use upon which BLV's are based.

357. Please note that while a number of consultees were concerned about the lack of transactional data upon which to base the Interim Study land values, none of the consultees provided any evidence of their own to underpin their statements that the BLV's were too low.

358. As a consequence, while the Existing Use Values applied are as the Interim Study, there is confidence in the EUV regarding agricultural land values there is less confidence with regard to the urban land values applied. If the urban existing use land values to which an uplift is applied, are lower than shown, then it is more likely that a scheme would be viable. It should be noted that while there is less confidence in these values, the centrally located development covered by Typologies 3, 4 and 7, will encounter their unique set of development constraints which will require additional consideration on a site specific basis, this will include consideration of land value at that time.

Existing Use Values applied:	**Typology 1 -2, 5 – 6, 8 -11 at £25,000/Ha (£10,117/acre)** **Typology 3 at £1,851,852 per Ha (£746,269/acre)** **Typology 4 at £2,400,000 per Ha (967,742/acre)** **Typology 7 at £2,000,000 per Ha (813,008/acre)**

Review:

359. <u>Step 2 – multiplier or percentage uplift to apply to the EUV to establish the BLV</u>
Although a number of consultees were looking for specific reasoning behind the multiplier or percentage increase applied, these are notional uplifts in value in arriving at what a landowner would accept as a reasonable incentive for the payment for the land.

360. Applying the same multiplier or percentage increase across each Typology would not achieve this notion which is why a multiplier is applied to greenfield sites and a percentage uplift to brownfield or urban sites where the EUV is higher than a greenfield/agricultural land value by virtue of potential other uses.

361. There are cases starting to test these multipliers however ultimately it is the location and scale of envisaged development which will provide the rationale as to what is a satisfactory uplift or multiplier might be. This debate is also likely to continue as viability in planning becomes fully established if this current practice remains.

362. Notwithstanding the above there has been no change to the Interim Study, the Appraisals remain as below. A Summary of Existing Use Values, multipliers and percentage uplift with the resultant Benchmark Land Values and reference to Market Value where possible are provided in Appendix H:

Multiplier or percentage upfit applied:	**Typology 1 and 2 – 20 x's EUV** **Typology 3, 4 and 7 – 30% uplift from EUV** **Typology 5, 6 and 8 – 17.5 x's EUV** **Typology 9 -15 x's EUV** **Typology 10 and 11 – 10 x's EUV**

363. Should viability be marginal, and all other costs are considered to be robust, then Sensitivity testing costs associated with the multipliers could be undertaken.

364. While the methodology surrounding this Viability Appraisal does not apply market led Residential Land Values but rather Benchmark Land Values uplifted from the EUV, an assessment of the prevailing has been undertaken. As stated earlier it is notoriously difficult to obtain good quality evidence that can be used to compare against the Benchmark Land Values notwithstanding the time delay in reporting of deals. Consultees were also unable to provide any comparable transactions to aid this process, this is likely to be for the same reasons as encountered and for client confidentiality reasons. A basic assessment of residential land values has nevertheless been undertaken and can be seen in Appendix H. It can be seen that prices range widely and no real conclusions can be made without a full understanding of any one transaction.

Stamp Duty Land Tax (SDLT)

365. Assessed using a SDLT calculator and applied in the appraisals as appropriate.

Rate Applied:	**Standard Government Assessment**

Land Payment (Acquisition) Fees

Interim Study

366. An allowance of 1.25% was applied, this was to cover legal, agent and other fees.

Consultation Comments

367. The fees had reduced from the original 2017 Hamson report from 1.75% to 1.25% in the Interim Study.

368. It was considered that no evidence or justification was given for the 30% decrease.

Review

369. While the land acquisition fee had reduced from the initial 2017 report, the rate incorporated into the 2019 Viability Study was considered to reflect the then current industry practice.

370. The following is applied:

Rate Applied:	**1.25%**

PART 4 - SENSITIVITY ANALYSIS

Purpose

371. The RICS Financial Viability in planning: conduct and reporting 2019 makes Sensitivity Testing a mandatory requirement.

'*All Viability Appraisals and subsequent reviews must provide a sensitivity analysis of the results and an accompanying explanation and interpretation of respective calculations on viability, having regard to risks and an appropriate return(s). This is to:*

- *allow the applicant, decision- and plan-maker to consider how changes in inputs to a financial appraisal affect viability, and*
- *understand the extent of these results to arrive at an appropriate conclusion on the viability of the application scheme (or of an area-wide assessment).*

This also forms part of an exercise to 'stand back' and apply a viability judgement to the outcome of a report.'

What was tested

372. In theory it would be possible to test any number of the elements of the appraisals in any combination for each of the Typologies, however, this is not necessarily practical given the nature of the notional Typologies which are being assessed for viability.

373. The higher the level of appraisal or the notional nature of the Typology a more robust testing would be appropriate, whereas viability appraisals for site specific developments may require a more detailed and nuanced approach.

374. With regard to the high level and notional Typologies the key elements of an appraisal which can dramatically impact on viability of a particular scheme are the 'big ticket items' or development make up i.e.:

- Gross Development Value – market rates and level of affordable housing provision,
- Core build costs,
- External works, and
- Abnormal site conditions impacting on development costs.

375. To a lesser extent but can still impact on marginal schemes:

- Affordable housing tenure type provision i.e. ART and AHO split, and
- Land value – whether market or benchmark including uplift mechanism.

376. Marginal impact on viability:

- All Fees – consistent rates applied across the industry,
- Finance/Interest rate – lack of variability although developers own track record or Board requirements may impact to a greater or lesser extent,
- Program – fairly industry standard approach unless say new technologies are being applied

377. The above assumes that schemes are policy compliant with regard to CIL, Planning Obligations and other Policies which require monetary inputs, and that taxation etc is standard.

378. On the assumption that the key elements of the Typologies are fixed i.e. housing density, mix, provision of affordable housing, CIL, Planning Obligations and other Planning Policy requirements, build costs, revenue and BLV was tested to a reasonable extent.

379. Using the base data inputs for each of the appraisals, the following was assessed for each Typology:

- Minus 5% in sales or revenue figures,
- Plus 5% in core build costs,
- Plus 10% in core build costs,
- Minus 5% in sales and plus 10% in core build costs,
- An increase to the multiplier from 20 to 22.5 to establish the Benchmark Land Value for Typologies 1 and 2,
- An increase to the multiplier from 17.5 to 20 to establish the Benchmark Land Value for Typologies 5, 6 and 8,
- An increase to the multiplier from 15 to 17.5 to establish the Benchmark Land Value for Typology 8,
- An increase to the multiplier from 10 to 17.5 to establish the Benchmark Land Value for Typologies 10 and 11, and
- A reduction in the percentage uplift from 30% to 20% to establish Benchmark Land Value for Typologies 3, 4 and 7.

The same methodology was applied as the base appraisals.

Results

380. **Typology 1 – 12 dwellings**
Base appraisal provides a surplus of circa £50,000 and a surplus of £16,500 when an uplift to the BLV is applied.

When the revenue is decreased by 5%, the build costs increased by 5% each provides a scheme deficit, which could in theory be valued engineered to produce viable a viable scheme although this is a small notional development.

Once a 10% increase in build costs are applied then the viability is increases to £125,000.

381. **Typology 2 – 20 dwellings**
A surplus is shown for all of the tested scenarios except plus 10% in build costs although this is circa £32,000 on a 20 units scheme.

A reduction of 5% in revenue and 10% to build costs produces a significant deficit.

382. **Typology 3 – 20 dwellings, outside inner ring road**
All scenarios show a healthy surplus until a combined decrease in sales and increase in build costs is run, where a loss of circa £100,000 is seen.

This will be because the base sales rate is higher due to location.

383. **Typology 4 – 20 dwellings, inside inner ring road**
This Typology makes a significant loss on all scenarios including the base appraisal.

The reason for this will be the additional construction costs (apartments) which are not countered by a corresponding increase in sales values. The BLV when reduced did impact from the base appraisal but only by circa £60,000.

384. **Typology 5 – 50 dwellings**
A 5% decrease in sales produces a deficit of circa £150,000, but a 5% increase in build costs still produces a surplus as does a 2.5 point increase on the EUV to establish the BLV.

A 10% increase in build costs provides a deficit circa £270,000.

385. **Typology 6 – 75 dwellings**
The base appraisal shows a significant surplus although this does only equate to £13,000 per dwelling. A 5% decrease in sales, an increase in build costs by 5% and an uplift in BLV all produce surplus figures.

A 10% reduction in build cost produces a small deficit of circa £14,000, but once both the decrease in revenue by 5% and an increase in build costs at 10%, a significant deficit occurs.

386. **Typology 7 – 100 dwellings**
Only a small positive surplus figure is produced for the base appraisal but this increases when the BLV percentage uplift is reduced by 10%.

All other scenarios produce significant deficits.

387. **Typology 8 – 100 dwellings**
The base appraisal produces a surplus as well as a 5% in build costs and the 2.5 point increase in the BLV multiplier. A 5% reduction is sales also produces a surplus but this is small.

A 10% increase in build costs produces a deficit circa £440,000.

388. **Typology 9 – 250 dwellings**
This produces a similar scenario to Typology 8 although the figures are higher to reflect the scheme size.

389. **Typology 10 – 600 dwellings**
The base appraisal produces a surplus of circa £4.7m but this reduces to a surplus of only £214,000 when an increase of 5% in build costs is applied.

All other scenarios produce a deficit which includes a 7.5 point increase in the EUV multiplier to establish the BLV.

390. **Typology 11 – 1000 dwellings**
This is less dramatic than Typology 10 although a 7.5 point increase in the EUV multiplier to establish the BLV, and a 10% increase in build costs still produce deficits.

The base appraisal produces a surplus of £10,800 per dwelling or £10.8m. A sales decrease impacts on the level of surplus achieved as does a 5% increase in build costs.

391. A Summary of the resultant surplus or deficit margins are found in Appendix I.

Please note that the data sheets and workbooks (PDS appraisal sheets) for the sensitivity analysis are not provided but can be requested.

PART 5 – IN CONCLUSION

Summary

392. Typologies have been assessed and tested as instructed by GNDP and in accordance with professional guidance notes and industry standard practice.

393. Each element of the appraisals have been reassessed to bring those appraisals up to date and to ensure the consultee responses following the public consultation in early 2020, were taken into account where relevant.

394. The base appraisals were then tested in accordance with professional mandatory requirements and Practitioner judgement.

395. The Practitioner has also provided commentary regarding Market Uncertainty particularly in view of the Global Pandemic and Brexit.

Conclusions

396. All Typology scenarios with the exception of Typology 4 – inside inner ring road produce a surplus when the inputs are as described and applied in this Viability Appraisal including the proposed Plan policy requirements. While some of these surpluses could be seen to be a reasonable cushion against non-viable schemes there are circumstances which could significantly impact on viability.

Table summarising the base appraisal findings

Typo-logy:	Description:	No. Dw:	Gross Site Area Ha:	Net of Site Area Ha:	Surplus/ Deficit per Typology:	Per Dwelling:	Per Ha:	Per Acre:
1	South Norfolk Village Clusters	12	0.50	0.50	**£49,994**	**£4,166**	**£99,988**	**£40,464**
2	Main Town/Service Village	20	0.71	0.71	**£249,722**	**£12,486**	**£351,721**	**£142,337**
3	Urban	20	0.27	0.27	**£360,925**	**£18,046**	**£1,336,759**	**£540,968**
4	Urban Centre	20	0.25	0.25	**-£334,734**	**-£16,737**	**-£1,338,936**	**-£541,849**

Typo-logy:	Description:	No. Dw:	Gross Site Area Ha:	Net of Site Area Ha:	Surplus/ Deficit per Typology:	Per Dwelling:	Per Ha:	Per Acre:
5	Main Town / Service Village	50	2.02	2.02	£514,028	£10,281	£254,469	£102,980
6	Urban Fringe / Main Town	75	3.04	3.04	£1,021,280	£13,617	£335,947	£135,953
7	Urban Centre	100	0.50	0.50	£124,884	£1,249	£249,768	£101,078
8	Urban Fringe / Main Town	100	4.05	3.81	£1,082,087	£10,821	£267,182	£108,125
9	Urban Fringe / Main Town	250	10.12	9.51	£3,054,957	£12,220	£301,873	£122,164
10	Urban Fringe / Main Town	600	24.28	21.35	£4,692,976	£7,822	£193,286	£78,220
11	Urban Fringe / Main Town	1000	40.00	35.28	£10,822,469	£10,822	£270,562	£109,493

RED	Base Appraisal not viable
AMBER	Base Appraisal marginal i.e. surplus < £10,000 per dw
GREEN	Base Appraisal viable

397. The impact of a 5% fall in sales rates will have a greater impact on viability than a 5% increase in build costs whereas a 10% increase in build costs has a greater impact on viability than the 5% decrease in sales on viability.

398. The Benchmark Land Value testing whether the increase or decrease in uplift also impacts on viability but to a lesser extent than an increase in build costs or decrease in sales.

399. Where it may be feasible to value engineer some of the build costs per Typology to achieve viability, some of the costs are so large as to make this unlikely.

400. The Typologies are therefore considered to be feasible scenarios with the inputs as described although Typology 4 may require further consideration. While current market commentary suggests that sales rates are unlikely to fall in the foreseeable future, the risk is that build costs could increase placing pressure on viability.

401. Further updating and testing is likely to be required over time.

Links to Key Documents referred to in Viability Appraisal	
	[1] Draft Greater Norwich Local Plan
	[2] Hamson Baron Smith GNLP Viability Appraisal August 2017 also referred to as 2017 Hamson Report or the HBS Report
	[3] 2019 Interim Study
	[4] RICS Financial Viability in planning: conduct and reporting 1st edition May 2019 https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/building-surveying/financial-viability-in-planning-conduct-and-reporting-rics.pdf
	[5] National Planning Policy Framework 2019 (NPPF) (previously 2012)
	[6] Viability Testing Local Plans: Advice for planning practitioners June 2012 'the Harman Guidance'
	[7] Town and Country (Local Planning) Regulations 2012 (as amended)
	[8] Planning Policy Guidance 2019
	[9] RICS Professional Guidance, England 1st edition: Financial viability in planning (GN 94/2012) https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/financial-viability-in-planning-1st_edition-rics.pdf
	[10] ECHarris 2011 Report
	[11] UK Green Council Building Standards
	[12] The Future Homes Standard: Building Regulations for new dwellings, MHCLG, October 2019 https://www.gov.uk/government/consultations/the-future-homes-standard-changes-to-part-l-and-part-f-of-the-building-regulations-for-new-dwellings
	[13] Raising accessibility standards for new homes, MHCLG, September 2020 https://www.gov.uk/government/consultations/raising-accessibility-standards-for-new-homes
	[14] RICS Valuation Global Standards 2020 (The Global Red Book)
	[15] BCIS Summary and Forecast 1st December 2020
	[16] RICS November 2020: UK Residential Market Survey https://www.rics.org/globalassets/rics-website/media/market-surveys/residential-market-surveys/11._web_-november_2020_rics_uk_residential_market_surveys.pdf
	[17] Land Registry
	[18] Housing Standards Review, Fixing the Foundations Productivity report

Links to Key Documents referred to in Viability Appraisal	
	[19] BREEAM
	[20] Homes and Communities Agency 'Guidance on dereliction, demolition and remediation costs' March 2015
	[21] RICS Valuation of Development Property 1st Edition https://www.rics.org/globalassets/valuation-of-development-property---first-edition.pdf