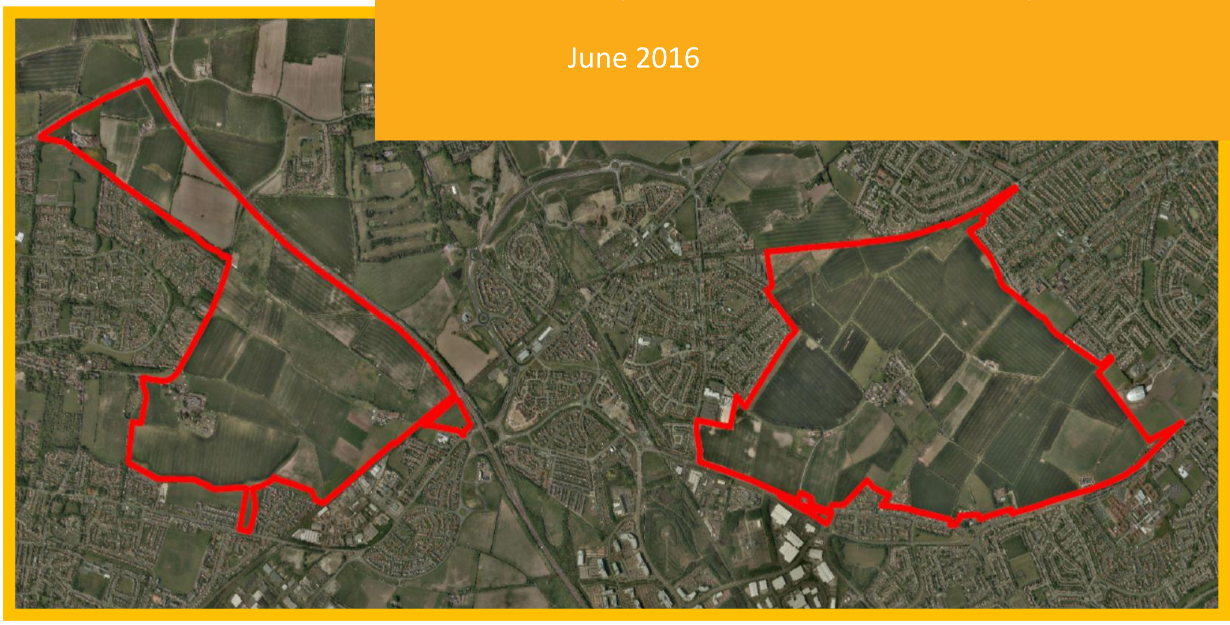
North Tyneside Council

Working in partnership with CAPITA

MURTON GAP & KILLINGWORTH MOOR – PROJECT VIABILITY AND DELIVERY REPORT

Prepared on behalf of North Tyneside Council

June 2016



Contents

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1. Introduction

The purpose of this project is to consider the viability aspects of the deliverability of the two strategic sites known as Murton Gap and Killingworth Moor. Other work is also being carried out to consider the practical aspects of deliverability (such as willing landowners, infrastructure and general mitigation). Deliverability of the sites is important as both have been identified as proposed allocations within the North Tyneside Local Plan Pre-submission Draft 2015. As key strategic sites they have potential to contribute towards the Borough's objectively assessed needs for housing and employment provision, to deliver some 5,000 new homes (across both sites) and approximately 17ha of employment space (at Killingworth Moor).

North Tyneside has identified in its emerging Local Plan a suggested requirement to provide for some 17,388 additional homes between 2011 and 2032. At March 2015 over 5,000 homes already benefit from planning permission and approximately 1,600 homes have already been built. There is therefore a need for at least an additional 10,500 homes across North Tyneside, to provide the homes required for current and future residents. These sites consequently have potential to deliver a significant proportion of the overall needs for growth within North Tyneside up to 2032.

If these sites are to be included in the Local Plan they must be deliverable and this will be tested when the examination into the soundness of the Local Plan takes place. The sites also require a thorough and robust understanding of the need for all infrastructure, services and facilities on the site including the needs for new school(s), open space, transport requirements including new public transport provision, and retail, health and community facilities. This assessment will form just part of a much larger evidence base.

In relation to deliverability, footnote 11 of the NPPF says:

'To be considered deliverable, sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable. Sites with planning permission should be considered deliverable until permission expires, unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, there is no longer a demand for the type of units or sites have long term phasing plans.'

The main aim of this report is to demonstrate the deliverability (or not) of these sites. If the sites are deliverable the Council may proceed with their inclusion in the Local Plan. If they are not deliverable it will be necessary for alternative sites to be sought.

Any new housing schemes in the Borough must make sure that they balance the requirement to make contributions to the supporting infrastructure, economy and environment, whilst ensuring that the schemes remain economically viable and deliverable by the developer. This is tested through a Viability Assessment. In order to provide the contributions to the Council, a scheme must be able to demonstrate that the development value of the site matches or exceeds the development costs, including an allowance for a developer's profit and a reasonable return to the landowner.

This report is based on the existing available evidence and based on surveys carried out so far, combined with the experience and knowledge of the writer, and contributions from the key stakeholders, to produce a robust, evidenced viability assessment, to consider whether these sites are deliverable and therefore appropriate to be included in the emerging Plan. If the sites are not deliverable (i.e. not viable) it would not be appropriate to include them in the Plan.

The modelling has been carried out using the HCA's Development Appraisal Tool, which is well used and respected within the planning process, and is publicly available and transparent for all parties. A number of assumptions will need to be made, and a number of items of further investigation will be highlighted. House builders and landowners were invited to share their views, and have been consulted on all aspects of the model.

This assessment has been carried out in line with 'Viability Testing Local Plans: Advice for planning practitioners' by the Local Housing Delivery Group Chaired by Sir John Harman (June 2012), known as the Harman Guidance. In particular regard has been had to the following quotation (page 23):

> *'Landowners and site promoters should be prepared to provide sufficient and good quality information at an early stage, rather than waiting until the development management stage. This will allow an informed judgement by the planning authority regarding the inclusion or otherwise of sites based on their potential viability.'*

The promoters of both sites (including the parts owned by the Council) have engaged openly in this process and assisted with the preparation of this study.

The Planning Practice Guidance (PPG) sets out the frame work for viability testing. It is necessary to look at these sites individually as they form such a significant part of the Local Plan – if they do not come forward the Plan would be adversely affected. It is important to note that this is a high level assessment with the purpose of understanding deliverability and not a detailed appraisal of the type that may be required at the development management stage. The PPG clearly differentiates between the differing levels of detail required.

2. Site location & description

Both sites form large areas of open land within North Tyneside.

Murton is surrounded by a number of differing communities. Right in the heart is the village of Murton itself. It is accessed via two narrow roads, and has a public house but few other amenities, surrounded by significant areas of farmland, very much giving the feeling of a secluded village. To the east, the site borders East Wellfield and Monkseaton, one of the more affluent areas of the Borough as it merges into Whitley Bay.

The south of the site borders Rake Lane, facing North Tyneside General Hospital. The proximity to the hospital will no doubt be a key benefit to the large amount of hospital employees. As the site goes around the community of New York it continues along New York Road, reaching Shiremoor. New York Road and the roundabouts at each end are key entry points into the Cobalt Business Park, the largest office park of its kind in the UK, and still growing. This has benefits in the amount of people it brings to the area who may be interested in purchasing a home nearby, but it also presents a challenge with regards to the road layouts and the capacity of the network at peak times. As it goes along the western boundary, it passes the Boundary Mills shopping complex. The western boundary continues past Shiremoor. The northern boundary of the site allocation is formed by the Metro line running between West Monkseaton and Shiremoor Stations, with ultimate road access to the north at the A186 adjacent to Earsdon. With close access to the A19(T) from the south west corner of the site, and the A1058 and consequently the Tyne Tunnel to the south, the area is very well connected for both employment and pleasure connections.

Killingworth Moor is well located for the A19(T), which provides excellent links to the north and south. The entire eastern boundary of the site runs along the A19(T), between the Holystone and Killingworth junctions. There is already a pedestrian link under the A19(T) through a large housing site currently under construction, that leads to Northumberland Park, a major area of recently completed housing development comprising a new district centre and metro station. To the south of the site the community of Palmersville merges into Forest Hall, whilst to the west of the site is Killingworth Township and Killingworth Village itself, set within a distinctive open break proposed as Local Green Space in the emerging Local Plan. The main access from the south of the site will be just off Great Lime Road, at Forest Gate, and not far from Palmersville Metro. As with Murton, the Metro line again forms a boundary to the site, across which lies the village of Holystone.

The sites are in close proximity, a little over 1 mile apart at their closest, and there is interdependence in terms of the provision of transport infrastructure and the more strategic elements of the social amenities (i.e. the location of the new schools). Therefore, the sites have been considered together for the early strategic development of Concept and Delivery Frameworks to inform the policy and evidence base of the Local Plan.

Both sites are primarily in use as farmland. The land is either still in the ownership of the local farmers, owned by the house builders, or under option to the house builders.

Net developable areas of circa 57ha at Killingworth and 85.71ha at Murton have been provided. Ownership plans are appended to this report.

To inform this viability assessment an indicative assessment of potential land areas, informed by the indicative Concept Plan included within the Local Plan pre-submission draft, has been identified. This initial estimate will inevitably evolve as more detailed work is undertaken on the Delivery Framework and masterplans for the sites. These estimates are illustrated in tables 1 and 2 on the following page:

Murton	Area (ha)	Comment
Initial area		
Net Developable Area	85.71	At 35 dph
Primary School	2	
Open Space	58	At 50 homes per hectare requires 60ha - less 2ha for primary schools.[1]
Metro	1	
Strategic Road	3.6	Estimate based on 1.2km length and 30m wide. 1,200*30 = 36,000m^2
SUDS	5	
Gross Site Area	**155.31**	
Remainder for General space, fields, Murton Village etc	86.69	

Table 1: Murton Site Areas

Killingworth Moor	Area (ha)	Comment
Estimated Net Developable Area	57	At 35dph.
Primary School	2	
Secondary School	8	At 35dph.
Open Space	30	At 50 homes per hectare requires 40ha - less 10ha for primary and secondary schools.[2] Notwithstanding potential scope for efficiency in land requirements if provided as a joint campus.
Metro	1	
Strategic Road	6	Estimate based on 2km length and 30m total width of route. 2,000*30=60,000m^2
SUDS	3	
Gross Site Area	**107**	
Remainder for General space, fields, REME Depot etc	85.45	

Table 2: Killingworth Site Area

[1] Target requirement for overall provision of "open space" including general amenity grassland, areas of more formal parks, play areas, allotments etc … as part of the development. Total estimate based upon maintaining existing Borough wide ratio of 50 homes per hectare of open space - including schools. Therefore based on need for 60ha less (3000/50=60ha) less 2ha for primary school provision.

[2] Therefore based on need for 40ha less (2000/50=40ha) less 10ha for primary school provision.

3. Proposed Development

The site areas are set out in the tables in the previous section. Both incorporate large elements of open space. Of the 11 closest developments schemes to the sites, houses account for over 95% of the proposed units as opposed to flats[3]. When considering the proposed housing mix, analysis of other large schemes ongoing in and around North Tyneside shows that the vast majority of market homes on the site are 3 or 4 bed homes – very few if any 2 bed market homes are being built on these sites.

A similar mix has been used when modelling these two sites, with 1% of the units being 2 bed market homes. The Council do have aspirations to see a higher amount of two bed housing built on site, but this assessment is based on the more likely market scenario. The base models have assumed that they are fully compliant with the Council's requirement for 25% affordable housing (equating to 750 on Murton and 500 on Killingworth), which shall be split 75% affordable rent and 25% shared ownership, made up of two and three bed homes.

The mix on the base model used can be found in Appendix 2.

[3] Hometrack Analytics Report, July 2015

4. National Planning Policy

This report will consider deliverability in the context of national policy and guidance.

National Planning Policy Framework

The National Planning Policy Framework ("NPPF") was published in March 2012 and replaced virtually all previous national planning guidance. The introduction to the document confirms it should be a material consideration in the determination of planning applications.

The NPPF is clear there should be a presumption in favour of sustainable development where there is no conflict with the development plan. The NPPF sets out 12 key principles which planning should seek to adhere to.

These include:

- Proactively drive and support sustainable economic development to deliver the homes and thriving places the country needs;
- Seek to secure high quality design and a good standard of amenity for all existing and future occupiers of land and buildings;
- Encourage the effective use of land by reusing land which has previously been developed;
- Conserve heritage assets in a manner appropriate to their significance, so that they can be enjoyed for their contribution to the quality of life of this and future generations; and

The NPPF sets out guidance on a number of different themes, some of which are relevant to the proposed development. Starting with economic development the NPPF is clear the Government is committed to securing economic growth in order to create jobs as well as ensuring the planning system does everything it can to support sustainable economic growth. Consequently "significant weight should be placed on the need to support economic growth through the planning system". The NPPF also deals with housing matters and states there is a requirement for local authorities to have a five year supply of deliverable housing sites.

Housing Need and Sustainable Development

With specific regard to housing, the NPPF seeks to ensure that local planning authorities boost significantly the supply of housing, with paragraph 49 specifically stating that housing applications should be considered in the context of the presumption in favour of sustainable development. Where a 5 year supply of deliverable housing sites cannot be identified, paragraph 49 of the NPPF also advises that relevant local planning policies for the supply of housing should not be considered up to date.

When delivering new housing, paragraph 50 of the NPPF requires local authorities to plan for a mix of housing, delivering the size, type, tenure and range of housing required to meet local demand, and set policies to meet the identified need for affordable housing.

Affordable Housing

NPPF Paragraph 50 states that where authorities have identified that affordable housing is needed, they should set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified and the agreed approach contributes to the objective of creating mixed and balanced communities. However it goes on to state that such policies should be sufficiently flexible to take account of changing market conditions over time, meaning specific market conditions must be taken account of.

Planning Obligations

The NPPF includes at paragraph 203 to 206 advice regarding the occasions where Local Planning Authorities should seek conditions and planning obligations from development. It is clear that planning obligations should only be used where a condition could not make the proposed scheme acceptable in planning and all such obligations must be necessary to make the scheme acceptable in planning; directly related to the development; and, fairly and reasonably related to the development in scale and kind.

Ensuring Viability and Deliverability

Where the NPPF becomes particularly crucial to this report is in Paragraph 173, which relates to the viability and deliverability of development. Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. It goes on to say that in order to ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, …… to enable the development to be deliverable.

'...sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide ***competitive returns*** *to a willing land owner and willing developer to enable the development to be deliverable.'*

This is underpinned by a subsequent report by the Local Housing Delivery Group (2012), often referred to as the Harman Report, which stated:

"An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and

availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered."

The RICS Guidance Note 'Financial Viability in Planning' defines financial viability as follows:

'*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.*'

In essence the purpose of this study is to establish whether or not the sites have a likelihood of generating a land value, sufficient to induce a land owner to sell the land for development (a ***competitive return*** *to a willing land owner)* – having allowed for the developer to make a profit (a ***competitive return*** *to a willing developer)*.

The appropriate level of competitive return has been explored at many planning appeal hearings.

The reference to competitive returns is particularly important, as it emphasises the necessity in ensuring that both the land owner and the developer achieve a fair sale price and profit respectively. The NPPF is therefore clear that the local authority must ensure that the development is not hindered by unreasonable demands.

The PPG provides direction on undertaking viability assessments at the plan making stage. Of particular importance to this work is the approach to Land Value and Competitive Return. In connection to Land Value the PPG says (at *014 Reference ID: 10-014-20140306)*:

Land Value

Central to the consideration of viability is the assessment of land or site value. The most appropriate way to assess land or site value will vary but there are common principles which should be reflected.

In all cases, estimated land or site value should:

- *reflect emerging policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;*
- *provide a competitive return to willing developers and land owners (including equity resulting from those building their own homes); and*
- *be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.*

The Harman Guidance deals with Land Values in the section headed Treatment of Threshold Land Value (selective quotations).

Another key feature of a model and its assumptions that requires early discussion will be the Threshold Land Value that is used to determine the viability of a type of site.

This Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development…...

Different approaches to Threshold Land Value are currently used within models, including consideration of:

- *Current use value with or without a premium.*
- *Apportioned percentages of uplift from current use value to residual value.*
- *Proportion of the development value.*
- *Comparison with other similar sites (market value).*

Some models allow for a variety of threshold approaches in order to give a range of outputs. The potential for testing at a range of values is considered further below.

Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values (noting the exceptions below).

Alternative use values are most likely to be relevant in cases where the Local Plan is reliant on sites coming forward in areas (such as town and city centres) where there is competition for land among a range of alternative uses. This approach is already used by many councils, allows realistic scope to provide for policy requirements and is capable of adjusting to local circumstances by altering the percentage of premium used in the model.

Following the Harman Guidance, the existing use value of the land has been considered and the amount above that to provide the landowner with a 'competitive return'. This is in line with the PPG (*015 Reference ID: 10-015-20140306)*

Competitive return to developers and land owners

The National Planning Policy Framework states that viability should consider "competitive returns to a willing landowner and willing developer to enable the *development to be deliverable." This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.*

A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.

In this assessment the competitive return to the willing landowner relative to other uses (agricultural in this case) and the competitive return to the willing developer relative to the risk of the scheme have been considered.

5. North Tyneside Planning Policy

The following is a quote from the Council's 'North Tyneside Local Plan Pre-submission Draft 2015':

To meet a Borough-wide target for at least 25% of all new homes to be affordable in perpetuity, new housing developments of 10 or more dwellings, or on sites of 0.5 ha or more, must include the maximum proportion of affordable housing taking into consideration specific site circumstances and economic viability.

Consultation on the document took place between November and December 2015. Following review of the responses received to that consultation, submission of the Local Plan to the Secretary of State for examination is expected around mid 2016. This Viability Assessment will be on the basis of complying with this policy. There is currently no Community Infrastructure Levy (CIL) within North Tyneside, although a small allowance has been included to cover potential future implementation.

Key drivers in determining the form, tenure and type of future development include:

- The need to continue development to satisfy household aspirations and expectations, in particular the development of open market detached and semi-detached properties with 3 or more bedrooms;
- Responding to the impact of demographic change on dwelling requirements and in particular developing an increasing range of house and support products for older people;
- Delivering additional affordable housing to help offset the identified net shortfalls and diversifying the range of affordable options by development intermediate tenure dwellings and products;
- Delivering housing to address the requirement of smaller households;
- Delivery housing with support to meet the range of needs;
- The economic viability of delivering affordable housing on sites across North Tyneside;

- There are no requirements for additional building standards - all units will be expected to meet Building Regulations;
- Target requirement for overall provision of "open space" including general amenity grassland, areas of more formal parks, play areas, allotments etc as part of the development. Total estimate based upon maintaining existing Borough wide ratio of 50 homes per hectare of open space - including schools.

These policy requirements are reflected in the modelling in this report.

6. Gross Development Value

A key element within this viability appraisal is the assessment of the total value that the scheme can deliver through the sale of the completed houses.

i. Value of Market Homes

The headlines from the latest RICS Residential Report are that demand and sales growth are easing, and sales expectations have weakened following a rush on buy-to-let purchases before the stamp duty changes. However, tight market conditions ensure prices continue to rise firmly at a UK wide level. Combined with the housing shortage that is found within North Tyneside, this should give confidence to the developers that there will be sufficient demand for the new developments at Murton and Killingworth. On a local level, the House Price Index in North Tyneside was relatively steady in the second half of 2014, before peaking in the first quarter of 2015, but now dropping back to settle in the 223 – 228 range. The shortage of homes is not going to be resolved overnight, so provided there are no significant national economic shifts, it is a reasonable assumption to expect a steady rise to continue. Having said this, the basic analysis in this report is based on current prices and costs (in line with PPG)

Date	Index
February 2016	226.56
January 2016	226.72
December 2015	227.31
November 2015	228.79
October 2015	228.67
September 2015	226.81
August 2015	224.7
July 2015	223.55
June 2015	223.03
May 2015	228.21
April 2015	230.36
March 2015	229.68
February 2015	229.49
January 2015	226.41

December 2014	226.26
November 2014	226.19
October 2014	225.47
September 2014	225.5
August 2014	225.55
July 2014	222.34
June 2014	222.53
May 2014	219.86
April 2014	214.83

Table 3: Land Registry House Price Index for North Tyneside

Current Availability

There are a number of schemes being developed in North Tyneside at present, with 9 on site within a mile or two of at least one of the two sites. Bellway, Taylor Wimpey, Gladedale and Barratts are the most active within the Borough, with Bellway's site at Earsdon View being the most significant development being built at present in terms of size. Of the 656 unit scheme there are 190 units still to be built, with approximately 70% complete. Availability currently ranges from a three bed semi at £172,995 up to four bed detached homes at £274,995.

There are a number of new developments that are being built and have recently began being advertised on the market in North Tyneside at the moment which are very close to the site (see Table 4). Dove Park is adjacent to the eastern side of the Murton site, to the rear of North Tyneside General Hospital. Brierdene and Heritage Green are both in the Northumberland Park area, which are located in between Murton and Killingworth. The range on these schemes is from £2,027m^2 up to £2,521m^2.

Address	Property Type	Floor Area	Asking Price	£m2
The Balmoral – Brierdene	4 bed detached	160	£349,950	£2,187
The Durham, Brierdene	4 bed detached	123	£289,950	£2,357
The Warwick, Brierdene	4 bed detached	130	£304,950	£2,345
The Crompton, Heritage Green	4 bed detached	143 (est)	£289,950	£2,027
The Warwick, Dove Park	4 bed detached	130	£319,950	£2,461
The Boston, Dove Park	4 bed detached	125	£307,950	£2,453
The Wellington, Dove Park	4 bed detached	115	£289,950	£2,521
Benton Farm Mews	3 bed semi	103	£225,000	£2,188

Table 4: New Developments

At the higher end of the market but also in close proximity to Murton is the 'West Park' development off Earsdon Road, which is being developed by Taylor Wimpey. This executive homes site is comprised of 70 four and five bed dwellings, with asking prices ranging from £325k up to £460k, demonstrating the value that can be extracted from the top end of the market in North Tyneside. In the sales value table, Stobswood Close, Coanwood Drive, Victoria Drive and Hauxley Drive all form part of the West Park development, and demonstrate that they are comfortably achieving values in the £2,400m^2 - £2,700m^2 range.

There are 4 schemes near to Killingworth Moor on site at the moment. Taylor Wimpey and Gladedale both have medium sized sites (99 & 61 units respectively) in Palmersville, near to where the main entrance to the Killingworth Moor site will be off Great Lime Road. These sites do demonstrate a drop in asking prices from those sites surrounding Murton. The Coppice (Gladedale) has asking prices up to £295k, with a 3 bed detached property in the region of £230k. Lime Gardens (Taylor Wimpey) is pretty much complete, with achieved prices in 2014 in the region of £1,900m^2 to £2,150m^2. Barratt's development on the former Norgas House site is a terraced development, with views over Killingworth Lake. Three bed dwellings are available for £185k-195k, with the four bed homes priced at £227,500. The terraced house type will have had a negative impact on their values as opposed to if they had been detached.

There is a noticeable increase in values at Taylor Wimpey's 'Darsley Green' development, with 3-5 bed homes available for between £250k - £360k, however this site benefits from its proximity to an area of higher value housing at Benton and good accessibility to Newcastle.

Slightly further afield, Gladedale are selling 3 and 4 bed detached properties for £200k-250k on the former Hadrian Park First School site.

Further sales evidence can be found in Appendix 3.

It is evident that prices vary geographically and within schemes. On the basis of this evidence, the following values have been adopted for both sites:

House Type	Size (m2)	House value (£m2)	House value
2 bed house	65	£2,307	£150,000
3 bed house	90	£2,333	£210,000
4 bed house	140	£2,321	£325,000

Table 5

These prices have been considered with the site promoters.

It is important to note that these two schemes are very large and provide scope to create a sense of space and place. Much of the development over the last 40 years or so across the wider Tyneside area has been homogenous, with little variation and repeated layouts and broadly similar house types.

ii. Value of affordable homes

It used to be a typical rule of thumb when valuing affordable homes that they are purchased by the Registered Providers at figures in the region of 50% to 70% of the market price. In this case, the units are of such a high end value that it would be difficult for the RP's to justify purchasing at these rates, which would typically reflect traditional 2-3 bed estate housing in the lower value areas of the Borough. Another significant factor since work first started on this report is the impact of the Government introducing measures to reduce the country's housing benefit bill, by reducing social housing rents by 1 percent per annum for the next 4 years. This has impacted on the purchase prices that Registered Providers are able to offer to offer.

Recent discussions with some of the most active social housing providers in North Tyneside have provided the following figures, which have taken into account the rent reduction:

- 2 bed Affordable Rent: £65,000
- 3 bed Affordable Rent: £75,000
- 2 bed Shared Ownership: £70,000
- 3 bed Shared Ownership: £80,000

Values for apartments are significantly lower, however there is little desire from either the house builders to construct any apartments, nor from the RP's to purchase any due to problems associated with managing apartment complexes, particularly if they aren't 100% affordable.

Another Government initiative that will develop during implementation of the Local Plan, is the introduction of discounted Starter Homes. Starter homes are capped at 80% of market value (up to £250,000 outside London) and are restricted for those under 40. A scenario has been included in Section 9 which examines the impact of Starter Homes – assuming 20% provision. It is important to note that Starter Homes are expected to be 'instead of' rather than 'as well as' affordable housing. Clarity about the definition of Starter Homes and their position in lieu of affordable rented or shared ownership units is expected to be contained within the Housing and Planning Act when it is published due summer 2016.

iii. Value of commercial property

The Killingworth Moor site is expected to include a large area of commercial/employment space. The Cobalt Business Park within North Tyneside is the largest office park in the UK. There are just a couple of units still to be built, and take up is high, with just a few units still available to let. Therefore it is envisaged that by the end of the decade, the Park will be at capacity. This model will therefore be on the basis that a similar type of use will be built on Killingworth Moor, i.e. good quality grade A office space.

The Employment Land Review states:

Generally, the demand for office space in the region has been focussed in the main between Newcastle city centre locations and out of town locations of which Balliol, Cobalt and Quorum Business Parks form part. The supply of office space in Newcastle city centre is diminishing and there will be a lag in the provision of more space as the economy improves and demand for office space increases. It is probable that some of this unmet demand will locate in the out of town business parks, including that of Balliol, Cobalt and Quorum.

A conservative income to the site of £425,000, based on 17 hectares at £250k/ha, has been included for the sale of employment land.

Whilst there is a desire to have a small retail centre within the sites, as they will be relatively low value, community shops, they have not been included on the assumption that they will ‘wash their face’ ie be cost neutral.

7. Gross Development Cost

Initially, a high level assessment of the likely construction costs of this development has been undertaken, in order to determine the costs likely to be incurred by a house builder, and therefore to assist in the assessment of the value of the site, using the information available to us at the time. The conclusions of this assessment have been used to make an informed judgement as to the likely return for a developer. All costs have been prepared by a Chartered Surveyor. The cost headings are summarised below:

Housing

- The median figure for estate housing in North Tyneside as at April 2016 is £944m^2. It is acknowledged that the BCIS index does not reflect the significant discounts that volume house builders can benefit from, through quantum allowances for volume building and improved supply chains and buying power. As set out in Table 5 of the BCIS Quarterly Review of Prices the adjustment factor for projects over £54,100,000 (both the projects have a cost of more than this) is 0.88. The adjusted BCIS cost is therefore £831/m^2 (£944 x 0.88).
- The HCA have provided the average build cost that they have received through the Delivery Partner Panel 2 (DPP2), which are for relatively large sites which involve medium or long term development. This includes costs from national house builders, regional developers and large RPs. The average cost for open market housing is £845m^2 (median £830m^2), with a range (excluding outliers) between £600m^2 to £1334m^2.
- Based on this evidence, a figure of £830m^2 has been included in the model.
- A general contingency of £3k per plot will be included for potential abnormals such as grouting, piling, unexploded ordnance etc. Anecdotal evidence provided by the developers have demonstrated that schemes in the region regularly cost an additional £1k-£10k per plot – the mining history of the region means these are fairly common.

Estate Infrastructure

The BCIS costs are just the costs of construction of the building itself. They are inclusive of foundations and finishes, but exclude site works (internal roads, landscaping etc) and service connections. In this high level study an allowance of 20% has been made in this regard.

This does not include abnormal costs and costs of strategic infrastructure and mitigation (the s106 costs) that are included elsewhere.

- The extent of the actual costs of landscaping, estate roads and communal waste quantity is unknown at this stage. Therefore, a general assumption must be made, that the estate infrastructure will equate to 20% of the build costs. This has been discussed with developers and consultants who have agreed that this is the assumption they would usually make in the absence of detailed design.

Strategic Infrastructure

As identified in the Infrastructure Delivery Plan, there are a number of critical items of infrastructure that will be necessary to ensure the scheme is deliverable. These items are included in the viability model, phased appropriately.

Murton

Item	Cost	Phase
Primary School	£4,400,000	1
Link Road	£5,200,000	1
A186 Earsdon Rd Roundabout	£3,600,000	1
A191 Roundabout Rake Lane	£2,090,000	1
A191 Roundabout New York Rd	£2,000,000	1
New York Road Access	£900,000	1
Bridge over Metro line	£2,000,000	1
Off Site Highways Norham Road/Park lane	£1,750,000	1
Off Site Highways Westminster Avenue	£300,000	1
Total	**£20,291,000**	

Table 6

Killingworth

Item	Cost	Phase
Primary School	£4,400,000	1
Link Road	£6,336,000	75% Phase 1, 25% Phase 2
A19 Underpass Tunnel	£2,000,000	1
Roundabout on Killingworth Way	£1,500,000	1
Killingworth Lane Junction	£400,000	2
Forest Gate Junction	£250,000	2
Off Site Highways works at A19 Killingworth Interchange	£3,500,000	2

Off site Highways works at Wheatsheaf Roundabout	£400,000	2
Total	**£20,127,000**	

Table 7

Utilities and Services

- Both proposed schemes are large greenfield sites and it will be necessary to manage the rate of water run off from the sites to no more than the rates at their undeveloped state. This is likely to be done through features integrated into the overall landscaping of the site and without the need for hard engineering solutions. On this basis (and based on the current available information) it has been assumed that the SUDS facilities are not an additional cost over and above the costs of soft landscaping, which will be included within estate infrastructure.
- The cost model assumes no alterations/diversions required to electricity pylons or high voltage overhead electricity lines
- All budgets for utilities (other than electricity) are based upon assumed scope of requirements, with estimates from Utility providers awaited.
- The extent of the renewable energy sources are unquantifiable at this stage. Therefore, it has been assumed that the estate infrastructure costs will be sufficient.

Education

- Each site allows for a Primary School being built on site by the developers. This will be wholly funded by each developer.
- Whilst there is a need for a secondary school on the Killingworth site, this will not be wholly funded by the consortia. Each site will instead make a contribution to the Local Authority as part of the S106 requirements. The amounts for each site have been taken from the draft Education Impact Assessment (April 2016)[4].

[4] 'The North Tyneside Local Plan - Impact upon Education Provision of New Home Building 2015 to 2032' Table 15: Indicative costs schedule for provision of "New Secondary School"

- The land required for the school is assumed to be from the gross area and not to reduce the net developable area. No land cost has been allowed for education provision. It has been upheld in other Local Plan assessments that the land for schools should be made available for free.
- The costs are based on assumed pupil numbers and are subject to detailed designs being made available.

Recreation

- There are costs included within the Section 106 costs (see below) for cycling infrastructure, sport, play and open space maintenance/parks. It is assumed that informal play areas are within the general landscaped areas, and covered with the 20% adjustment set out above.

Community & Healthcare Facilities

- A sum for community facilities has been included, which may include libraries or other community matters.

Employment

- The size of the Business Park/Office at Killingworth is unknown at this stage. Quantity total is an assumption and is subject to further design information. No allowance for employment use at Murton.

Abnormals

- The treatment of abnormal costs has been well rehearsed through the planning system. The treatment of abnormals was considered at Gedling Council's Examination in Public. There is an argument, as set out in Gedling[5], that it may not be appropriate for abnormals to be built into appraisals in a high level study of this type. Councils should not plan for the worst case scenario –

[5] REPORT TO GEDLING BOROUGH COUNCIL, THE PLANNING INSPECTORATE REF PINS/N3020/429/4, MAY 2015

rather for the norm. For example, if two similar sites were offered to the market and one was previously in industrial use with significant contamination, and one was 'clean' then the landowner of the contaminated site would have to take a lower land receipt for the same form of development due to the condition of the land. The Inspector said:

… demolition, abnormal costs and off site works are excluded from the VA, as the threshold land values assume sites are ready to develop, with no significant off site secondary infrastructure required. While there may be some sites where there are significant abnormal construction costs, these are unlikely to be typical and this would, in any case, be reflected in a lower threshold land value for a specific site. In addition such costs could, at least to some degree, be covered by the sum allowed for contingencies.

In some cases, where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures; flood prevention measures at waterside locations; remediation of any land contamination; remodelling of land levels; and so on.

Significant abnormal costs will be reflected in land value. Those sites that are less expensive to develop will command a premium price over and above those that have exceptional or abnormal costs. It is not the purpose of a study of this type to standardise land prices across an area.

- The extent of required Ecology, Heritage and arboricultural works is unquantifiable at this stage. Therefore, a Provisional Sum amount has been allowed for which may increase or decrease dependent on the works required.

- An overall allowance for abnormals and contingency has been made of £3,000 per unit as set out above. Potential abnormal costs that this may cover based on knowledge of the sites include but not limited to grouting, piling and unexploded ordnance.

General assumptions relevant to all elements of the Cost Model*:*

- All Costs are on a day one basis with no allowance for inflation or financing costs (in line with the PPG and Harman Guidance).
- Professional Fees are included at 5% on the Housing costs, as the house builders should be able to achieve significant economies of scale through using standard house types etc. Fees on other cost items are included on an item by item basis, typically 10%.
- All construction is assumed to be low level traditional build using standard foundation arrangements, with no allowance for excavation of basements.
- VAT is excluded.
- All Costs are based upon BCIS (Building Cost Information Service) £/m^2 rates inclusive of Preliminaries, or based upon market information for works of similar nature where possible, unless otherwise stated.
- Costs exclude allowance for adverse or abnormal ground conditions or ground contamination (although a £3,000/unit allowance has been made)
- Costs exclude service diversions, wayleaves or legal agreements.
- Overheads, profit, contingencies and professional fees are included on all items excluding housing costs. The contingencies should cover an element of 'unknown unknowns'.

Sales & Acquisitions Costs

A figure of 3% for agents and marketing costs has been allowed for. Whilst there is evidence of appraisals with higher and lower figures than this, on the basis of the efficiencies that can be achieved on a site of this size, this is a fair figure. £400 legal costs per unit is also a fair and reasonable industry standard figure.

On acquisition costs, standard industry rates of 0.75% agents fees and 0.75% legal fees have been used. Stamp Duty has been calculated at 4% plus VAT based on the table below.

Purchase Price	Stamp Duty rate
Up to £150,000	0%
£150,001 to £250,000	1% + VAT
£250,001 to £500,000	3% + VAT
£500,000 +	4% + VAT

Table 8

S106 Costs

S106 costs (excluding affordable housing) totalling £30,207,617 for the Murton Gap site, and £21,023,713 for the Killingworth site have been included. A full breakdown of these costs is found in the following table:

Murton

Item	Financial Contribution
Secondary Education	£8,774,190
New Bus Subsidy	£2,600,000
Sport & Recreation	£2,535,673
Social Infrastructure (on site cycle routes)	£2,454,240
Environment, Public Realm & Culture	£759,019
Community Facilities	£540,679
Play, Parks & Green Space	£1,981,748
Drainage	£2,400,000
Health	£1,095,820
Metro Station	£6,000,000
CIL Infrastructure Contribution	£720,000
Cycling routes off site	£629,748
Cycling routes off site	£940,872
Off Site Highway Works - Tynemouth Pool	£1,615,000
Total	£33,046,989

Table 9

Killingworth

Item	Financial Contribution
Secondary Education	£6,052,104
New Bus Subsidy	£2,600,000
Sport & Recreation	£1,690,448
Social Infrastructure (on site cycle routes)	£2,815,572
Public Realm	£506,012
Community Facilities	£360,000
Play, Parks & Green Space	£1,321,165
Drainage	£2,000,000
Health	£960,006
Metro Station	£5,000,000
CIL Infrastructure Contribution	£630,000

Off Site Highway Works - Great Lime Road/Killingworth Village	£350,000
Cycling routes off site	£740,496
Cycling routes off site	£298,464
Total	**£25,324,267**

Table 10

These costs have been provided by the Council's Planning department. The Metro costs have been provided by Capita's Transport Consultants, and have been based on evidence of costs on recent new Metro stations eg Northumberland Park, which have been adjusted for inflation based on the BCIS All In TPI. The Murton Station is based on a central platform with lift access, which is a higher cost than the traditional two platform model which has been assumed at Killingworth. A road bridge is also required for Murton.

Finance Costs

A rate of 6.5% has been used, as both a finance cost and a credit balance reinvestment rate. There is broad agreement on this figure from the Consortia.

Profit

An allowance needs to be made for developers' profit / return and to reflect the risk of development. Neither the NPPF, nor the CIL Regulations, nor the CIL Guidance provide useful guidance in this regard so, in reaching this decision, the RICS's *'Financial Viability in Planning*' (August 2012) has been considered and the Harman Guidance *Viability Testing Local Plans*, and referred to the HCA's Economic Appraisal Tool. None of these documents are prescriptive, but they do set out some different approaches.

RICS's *'Financial* Viability *in Planning*' (August 2012) says:

3.3.2 The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. ……..*

The Harman Guidance says:

Return on development and overhead

The viability assessment will require assumptions to be made about the average level of developer overhead and profit (before interest and tax).

The level of overhead will differ according to the size of developer and the nature and scale of the development. A 'normal' level of developer's profit margin, adjusted for development risk, can be determined from market evidence and having regard to the profit requirements of the providers of development finance. The return on capital employed (ROCE) is a measure of the level of profit relative to level of capital required to deliver a project, including build costs, land purchase, infrastructure, etc.

As with other elements of the assessment, the figures used for developer return should also be considered in light of the type of sites likely to come forward within the plan period. This is because the required developer return varies with the risk associated with a given development and the level of capital employed.

Smaller scale, urban infill sites will generally be regarded as lower risk investments when compared with complex urban regeneration schemes or large scale urban extensions.

*Appraisal methodologies frequently apply a standard assumed developer margin based upon either a percentage of Gross Development Value (GDV) or a percentage of development cost. The great majority of housing developers base their business models on a return expressed as a percentage of anticipated gross development *value, together with an assessment of anticipated return on capital employed. Schemes with high upfront capital costs generally require a higher gross margin in order to improve the return on capital employed. Conversely, small scale schemes with low infrastructure and servicing costs provide a better return on capital employed and are generally lower risk investments. Accordingly, lower gross margins may be acceptable.*

This sort of modelling – with residential developer margin expressed as a percentage of GDV – should be the default methodology, with alternative modelling techniques used as the exception. Such an exception might be, for example, a complex mixed use development with only small scale specialist housing such as affordable rent, sheltered housing or student accommodation.

It is unfortunate that the above are not consistent, but it is clear that the purpose of including a developers' profit figure is not to mirror a particular business model, but to reflect the risk a developer is taking in buying a piece of land, and then expending the costs of construction before selling the property. The use of developers' profit in the context of area wide viability testing of the type required by the NPPF and CIL Regulation 14, is to reflect that level of risk.

At the Shinfield appeal[6] (January 2013) the inspector considered this specifically saying:

Developer's profit

43. The parties were agreed that costs7 should be assessed at 25% of costs or 20% of gross development value (GDV). The parties disagreed in respect of the profit required in respect of the affordable housing element of the development with the Council suggesting that the figure for this should be reduced to 6%. This does not greatly affect the appellants' costs, as the affordable housing element is 2%, but it does impact rather more upon the Council's calculations.

[6] APP/X0360/A/12/2179141 (Land at The Manor, Shinfield, Reading RG2 9BX)

[7] i.e. the developers profit / competitive return.

44. The appellants supported their calculations by providing letters and emails from six national housebuilders who set out their net profit margin targets for residential developments. The figures ranged from a minimum of 17% to 28%, with the usual target being in the range 20-25%. Those that differentiated between market and affordable housing in their correspondence did not set different profit margins. Due to the level and nature of the supporting evidence, I give great weight [to] it. I conclude that the national housebuilders' figures are to be preferred and that a figure of 20% of GDV, which is at the lower end of the range, is reasonable.

This method of linking the developer's profit to GDV is reflective of risk can not be supported, as the risk relates to the cost of a scheme – the cost being the money put at risk as the scheme is developed. As an example (albeit an extreme one to illustrate the point) taking two schemes, A and B, each with a GDV £1,000,000, but scheme A has a development cost of £750,000 and scheme B a lesser cost of £500,000. All other things being equal, in A the developer stands to lose £750,000 (and make a profit of £250,000), but in B 'only' £500,000 (and make a profit of £500,000). Scheme A is therefore more risky, and it therefore follows that the developer will wish (and need) a higher return. By calculating profit on costs, the developer's return in scheme A would be £150,000 and in scheme B would be £100,000 and so reflect the risk – whereas if calculated on GDV the profits would be £200,000 in both.

More recently, further clarification has been added in the Oxenholme Road Appeal (October 2013)[8] where the inspector confirmed that the principle set out in Shinfield is very site specific and should only be given limited weight.

Broadly there are four different approaches that could be taken:

a. To set a different rate of return on each site to reflect the risk associated with the development of that site. This would result in a lower rate on the smaller and simpler sites – such as the greenfield sites, and a higher rate on the brownfield sites.

[8] APP/M0933/ A/13/ 2193338 (Land to the west of Oxenholme Road, Kendal, Cumbria)

b. To set a rate for the different types of unit produced – say 20% for market housing and 6% for affordable housing, as suggested by the HCA.

c. To set the rate relative to costs – and thus reflect the risks of development.

d. To set the rate relative to the gross development value.

In deciding which option to adopt, it is important to note that there is no attempt to re-create any particular developer's business model. Different developers will always adopt different models and have different approaches to risk. This is a high level appraisal for plan-making purposes.

The argument is sometimes made that financial institutions require a 20% return on development value and if that is not shown they will not provide development funding. In the pre-Credit Crunch era there were some lenders who did take a relatively simplistic view to risk analysis but that is no longer the case. Most financial institutions now base their decisions behind providing development finance on sophisticated financial modelling that it is not possible to replicate in a study of this type. They require the developer to demonstrate a sufficient margin, to protect them in the case of changes in prices or development costs, but they will also consider a wide range of other factors, including the amount of equity the developer is contributing – both on a loan to value and loan to cost basis, the nature of development and the development risks that may arise due to demolition works or similar, the warranties offered by the professional team, whether or not the directors will provide personal guarantees, and the number of pre-sold units.

This is a high level study where it is necessary and proportionate to take a relatively simplistic approach, so, rather than apply a differential return it is appropriate to make some broad assumptions.

The profit to reflect risk from development has been calculated as 18% of the value of market housing and 6% of the value of affordable housing.

It is useful to consider the assumptions used in other studies in other parts of England. A review of developer return assumptions used by other councils in England in development plans approved during the first half of 2014 is illustrated in the table below.

Developer's Return Assumptions Used Elsewhere	
Local Authority	**Developer's Profit**
Babergh	17%
Cannock Chase	20% on GDV
Christchurch & East Dorset	20% on GDC
East Hampshire	20% market/ 6% Affordable
Erewash	17%
Fenland	15-20%
GNDP	20% market/17.5% large sites/ 6% Affordable
Reigate & Banstead	17.5% market/ 6% Affordable
Stafford	20% (comprising 5% for internal overheads).
Staffordshire Moorlands	17.5% market/ 6% Affordable
Warrington	17.5%

Table 12: Planning Advisory Service (collated by URS) July 2014

The HCA have provided average figures derived from the tenders received by the HCA on their recent land disposals in the North East through the Delivery Partner Panel 2 - DPP2. The average profit on open market housing is 19% (median 20%). The average affordable housing rate was 8.1% (7% median).

The assumptions with regard to developers' return / profit are at the upper end of the range. Together these assumptions illustrate the generally cautious approach taken through the viability work and the comments made by the development industry through the consultation process.

This is a very high level appraisal, but as large Greenfield sites, developers should be able to proceed at the lower end of the range when full investigations have been carried out and the sites have been de-risked. Therefore a figure of 18% figure will be used for this appraisal on the market housing and 6% on affordable.

8. Threshold Land Value

Section 4 of this report set out background to viability testing. In this study, in line with requirements of the PPG and Harman Guidance. The subject of Viability has been the topic of discussion since the introduction of the NPPF as paragraphs 173 and 174 stress the importance of deliverability. With no singular definitive case law, the definition of viability is open to interpretation. Local authorities must have regard to the existing case law that does exist however.

Having had regard to the RICS Guidance Note 'Financial viability in Planning' (2012), which brings together the established best practice for assessing viability. The Note reiterates the general valuation principle that in order for a site to be released for development, the gross development value from a scheme must exceed the cost of development, an allowance for development profit, and generate a residual value greater than that of the existing land value, in order to incentivise the landowner to release the land. The greater the difference between the existing use value and the residual value the greater the competitive return for the site and therefore the more likely they are to release the land. This must be balanced with the requirement for a scheme to make a community contribution, *if viable to do so.* Assessing the uplift over and above the existing use value is at the core of the viability assessment. This is quite different to the land owners' aspiration. The PPG (at 015 Reference ID: 10-015-20140306) sets out the approach as follows:

> *Competitive return to developers and land owners*
>
> *The National Planning Policy Framework states that viability should consider "competitive returns to a willing landowner and willing developer to enable the development to be deliverable." This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.*
>
> *A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need*

to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.

In line with the Harman Guidance and the PPG, the method of establishing whether a site offers a competitive return is through comparing the Residual Value with the Existing Use Value (EUV). This cannot be done in isolation, regard also needs to be had to the levels of sales of residential land in the market.

In using comparable evidence care needs to be taken as no two sites are the same and the receipts are affected by a great number of site conditions (abnormal costs). Consultation with landowners, developers and Registered Providers is therefore critical to get an understanding of the market. Value can also vary greatly between localities within an area. Referring back to the Shinfield decision, the ruling makes reference in paragraph 45 to the unreliability of using comparable evidence, as 'direct comparisons are almost impossible to achieve.'

There are no set rules to determine what an appropriate level of uplift would be, as every land owner will have their own circumstances which would determine at what point they would be incentivised to sell. Some may have long term ambitions to hold onto the site for redevelopment, whereas others may be content with simply holding the land for agricultural purposes and having sufficient funds to purchase further agricultural holdings. As a minimum, a seller would expect that the uplift would cover all sale costs including stamp duty, legal fees etc. However, it is the 'premium' over and above that which causes the greatest debate as to what is a reasonable premium to incentivise the landowner.

Agricultural land values in the North East are in the region typically range from £15k - £25k/ha. This is supported by a recent report published by the DCLG on 'Land value estimates for policy appraisal', which suggested an agricultural value for the North East of £16,000/ha. A figure of £20,000 would seem reasonable and cautious.

Having considered the Valuation Office Agency Property Market Report 2011 which has references to transactions, it is worth nothing that the methodology is required to model assumptions, but that in reality it is difficult to compare land values as all sites have different costs. It is not possible to equalise all land values due to site specifics, such as, the existence of particular constraints including site decontamination or the need to provide road network improvements.

Residential assumptions in the VOA report are based on a 0.5 hectare greenfield suburban site with 2 storey construction, Section 106 provision and Affordable Housing provision based on the market expectations for the locality. This figure for the north east was £1.28m hectare (£520,000/acre). In order to adjust this to reflect the timing difference since January 2011 regard has been had to the HMLR House Price Index. This indicates an increase in the Index of approximately 10% in the intervening period to September 2015.

More recently (December 2015) DCLG published Land value estimates for policy appraisal. This sets out land values as at March 2015 and was prepared by the VOA. The North Tyneside figure is £1,225,000/ha. It is important to note this figure assumes nil affordable housing. As stressed in the paper this is a hypothetical situation and 'the figures on this basis, therefore, may be significantly higher than could be reasonably obtained in the actual market'.

In this case, the Valuation Office Agency assumed that each site is 1 hectare in area, of regular shape, with services provided up to the boundary, without contamination or abnormal development costs, not in an underground mining area, with road frontage, without risk of flooding, with planning permission granted and that no grant funding is available; the site will have a net developable area equal to 80% of the gross area. For those local authorities outside London, the hypothetical scheme is for a development of 35 two storey, 2/3/4 bed dwellings with a total floor area of 3,150 square metres.

9. Conclusions

The principal output of the appraisals is the residual value. The residual value is the maximum amount a developer can pay a landowner for a parcel of land having made a competitive return. For a site to be viable, the residual value must exceed the existing use value by a sufficient margin to induce the landowner to sell.

It is not the purpose of this study to set land values for these sites. The purpose is to assess the likelihood of the development generating a residual value that is sufficient to induce the landowner to sell. The amount of the uplift over and above the EUV will always be contentious. In considering this, regard has been had to other uses that the land could be put to.

The following tables summarise the results of the appraisals setting out both the EUV and the residual value. The EUV and price/ha are shown based on the gross site areas as detailed in Section 2. Table 13 represents the output based on the housing mix in Appendix 2.

Full policy & Infrastructure

Site	EUV	Residual Land Value	Multiplier	Price/ha
Murton	£3,106,200	£64,750,591	20.8	£416,911.92
Killingworth	£2,140,000	£50,787,396	23.7	£474,648.56

Table 13

On both sites, the residual value exceeds the EUV by a very substantial margin, being over 20 times the EUV. These figures reflect the sites bearing the full strategic infrastructure and mitigation costs and the provision of the affordable housing as required by the Local Plan.

A common theme throughout the results is that Killingworth comes out as slightly more deliverable. The higher infrastructure costs on Murton, as set out in Section 7, are the main reason for this difference.

These residual values assume an up front land purchase price, based on the residual value, but in reality, the land is unlikely to be purchased up front. It is more likely that land will be brought forward on a phased basis as it's required for each phase. A very basic suggested staged payments schedule would be follows:

Murton Gap		**Killingworth Moor**	
Date	**Payment**	**Date**	**Payment**
01/01/17	£31,000,000	01/01/17	£28,000,000
01/01/22	£23,000,000	01/01/22	£22,000,000
01/01/27	£37,000,000	01/01/27	£16,500,000

Table 14

Therefore re-running the base model with all inputs as per Table 13, but with these phased land payments gives the following outputs:

Site	EUV	Residual Land Value	Multiplier	Price/ha
Murton	£3,106,200	£91,000,000	29.3	£585,924.92
Killingworth	£2,140,000	£66,500,000	31.1	£621,495.33

Table 15

This demonstrates a significant uplift on the EUV, now amounting to a multiplier of around 30. This could be further drilled down in conjunction with the developers to even smaller parcels of land as they are needed, freeing up even more finance. Another benefit of using staged payments is to the developer's cashflow. By staging payments, the peak debt reduces from £115m to £70m on Murton and £88m to £58m on Killingworth, as demonstrated in Charts 1 and 2:

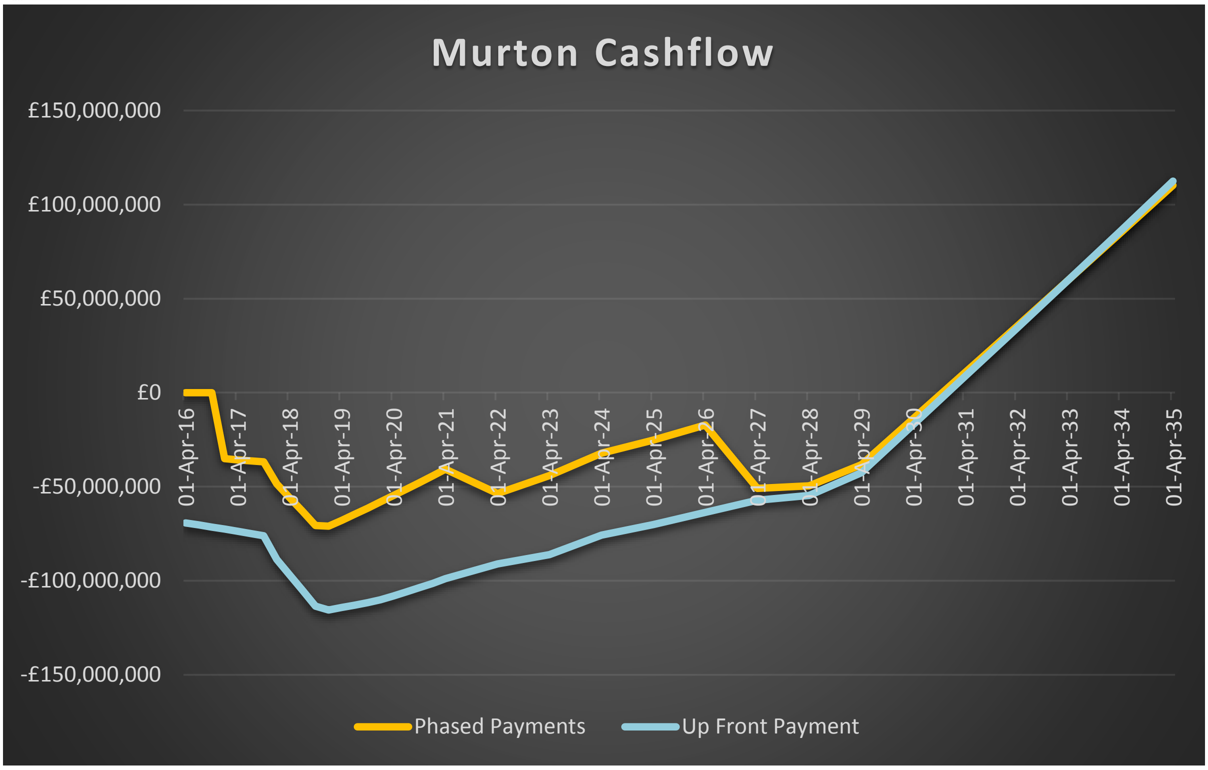

Chart 1

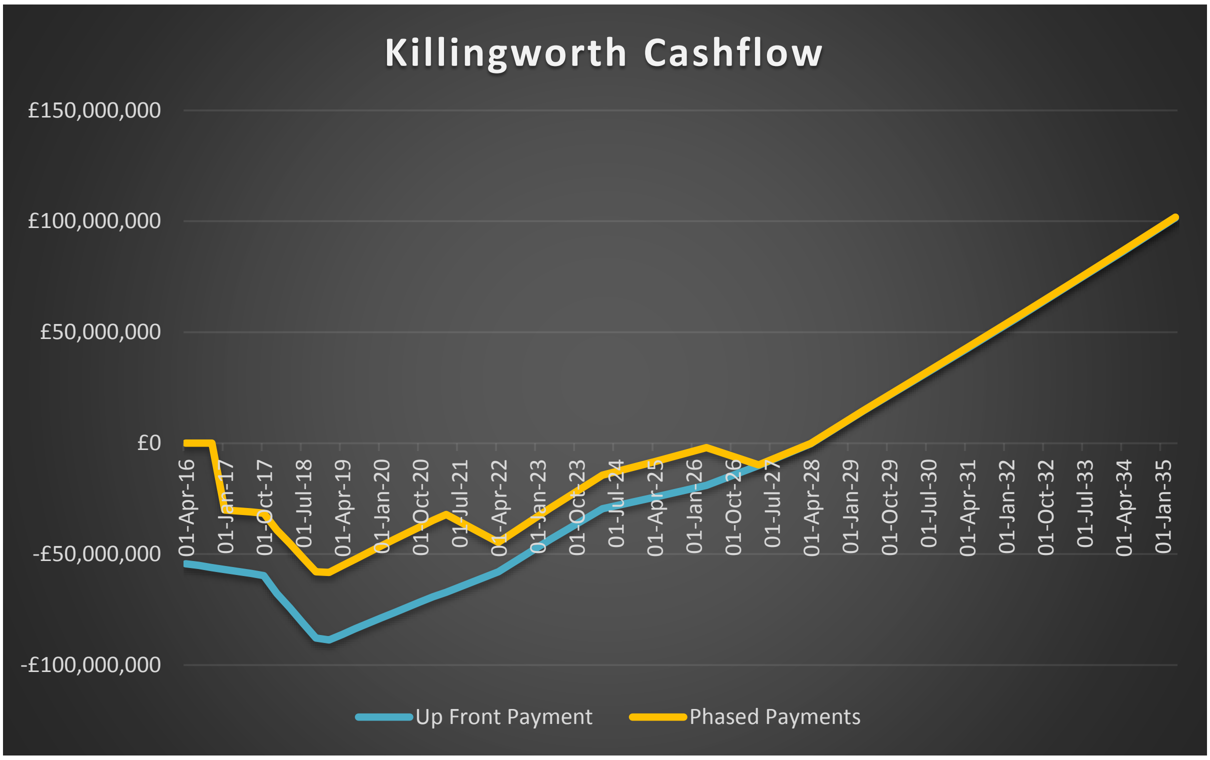

Chart 2

On this basis, the Council can be confident that these sites are deliverable and are likely to come forward. Clearly the assessment being carried out in this brief report is based on a series of high level assumptions, in line with the requirements of the PPG and following the principles set out in the Harman Guidance. It is inevitable that as planning applications are prepared and the sites move towards delivery, the information will be refined and is bound to change. In line with paragraph 2 on page 23 of the Harman Guidance it will be important that the Council continues to work closely with the developers to further understand the issues around these sites.

It is not appropriate to rely on sites for the delivery of housing if they are at the margins of viability. Further appraisals have therefore been run covering a range of alternative scenarios. The results of these are set out below.

Firstly an appraisal was ran without affordable housing or Section 106 contributions. It is important to note that the Council would not be able to approve a scheme on this basis as the provision of infrastructure is critical to both sites being acceptable in planning terms. The results can however help understand the overall viability.

0% Affordable Housing & no S106 contributions

Site	EUV	Residual Land Value	Multiplier	Price/ha
Murton	£3,106,200	£136,530,361	44.0	£879,082.87
Killingworth	£2,140,000	£103,971,869	48.6	£971,699.71
With Staged Payments				
Murton	£3,106,200	£191,000,000	61.5	£1,229,798.47
Killingworth	£2,140,000	£139,000,000	65.0	£1,299,065.42

Table 16

It should be noted that the Council would not be supportive of any reduction in affordable housing, but it does give an indication of the scale of the affordable housing impact, in that removing it doubles the deliverability. A similar scenario to test the removal of the affordable housing but retaining the financial contributions for all other elements has been ran.

0% Affordable Housing

Site	EUV	Residual Land Value	Multiplier	Price/ha
Murton	£3,106,200	£118,113,911	38.0	£760,504.22
Killingworth	£2,140,000	£90,179,047	42.1	£842,794.83
With Staged Payments				
Murton	£3,106,200	£166,500,000	53.6	£1,072,049.45
Killingworth	£2,140,000	£119,500,000	55.8	£1,116,822.43

Table 17

Scenario Testing

As this is an initial report, with the inputs still to be agreed with landowners, it does not go into detail on scenario testing. However, some basic scenarios on the more common inputs that may be subject to change and which could have a substantial bearing on the end value have been modelled, looking at a +/-5% change in sales prices and a 5% change in build costs. The impacts on the scheme deliverability is demonstrated in the following table:

Site	EUV	Residual Land Value	Multiplier	Price/ha
Murton				
5% Increase in Build costs	£3,106,200	£56,835,159	18.3	£365,946.55
5% Increase in Sales Values	£3,106,200	£77,956,729	25.1	£501,942.75
5% Decrease in Sales Values	£3,106,200	£51,544,453	16.6	£331,881.10
Killingworth				
5% Increase in Build costs	£2,140,000	£45,102,074	21.1	£421,514.71
5% Increase in Sales Values	£2,140,000	£60,323,387	28.2	£563,769.97
5% Decrease in Sales Values	£2,140,000	£41,251,404	19.3	£385,527.14

Table 18

Further refinement of the appraisal to maximise return and cashflow is possible. For instance, delaying the phasing of the major infrastructure can benefit the cashflow if the interest saving is held as a surplus, potentially being used to supplement the developer's profit if the land price is already satisfactory, or the developer already owns the land. However if it is added on to the residual value then there isn't a cashflow improvement, as it is cancelled out by the additional land purchase price.

Similar outcomes may be found in delaying the proportion of affordable housing until later in the programme – however the scale of this impact is lessened due to the increased expenditure on building larger market homes before the revenue is received.

Starter Homes

A key piece of Government policy that could significantly affect scheme viability in the future is the introduction of Starter Homes. This new scheme will be aimed at first time buyers under 40 to help them buy a new home. These are assumed to have a value of 80% of market value (capped at £250,000). These proposals are now out for consultation, and a number of aspects are still under review, including upper and lower age limits, the number of years the discount will be applied to the property for, and the percentage of starter homes that should be sought.

North Tyneside Council have commissioned arc4 (a housing consultancy) to research the impact of Starter Homes as it relates to North Tyneside. Whilst national legislation or local policy may change the requirements for how many Starter Homes are required on site, for the purposes of this report, it has been assumed that the current proposal for 20% of units on a site to be Starter Homes will be adopted, where the starter homes are provided instead of rather than as well as affordable housing. As these will be taken from the existing affordable homes requirement, the remaining 5% of the affordable allocation has been assumed to be affordable rent, replacing the requirement for intermediate housing.

20% Starter Homes, 5% affordable rent

Site	EUV	Residual Land Value	Multiplier	Price/ha
Murton	£3,106,200	£98,922,093	31.8	£636,933.19
Killingworth	£2,140,000	£74,151,391	34.7	£693,003.65
With Staged Payments				
Murton	£3,106,200	£138,500,000	44.6	£891,764.86
Killingworth	£2,140,000	£98,000,000	45.8	£915,887.85

Table 19

These results demonstrate that the inclusion of Starter Homes would have a significant positive impact on the deliverability of the schemes, and gives further confidence to the deliverability of both sites.

All of the models assume that all infrastructure is funded by the developers. However schemes of this size can often attract external funding to support delivery. If this scheme was able to attract some additional funding, for instance from the North East Local Enterprise Partnership (LEP), then that would improve the position further. Even a loan on beneficial terms would offer improvements through the reduction in financing costs.

All of the above testing demonstrates that there is significant flexibility in the scheme to ensure that the site comes forward. The exact form that takes will remain unknown at this stage, but the Council can be confident that Murton Gap and Killingworth Moor are deliverable as strategic sites.

10. Caveats

The report is subject to the information presented to us, and is based on values today. Except where stated, it makes no predictions about the potential changes in the economy or policy that could influence the development value or costs.

In arriving at an opinion of value, it is on the assumption that no contamination or other adverse environmental matter exist in relation to the site to affect value. No investigations into past or present uses have been carried out, either of the property of any neighbouring land to establish whether there is any contamination or potential for contamination to the subject property. No allowance is made for any effect in respect of actual or potential contamination of land. A party in the market might, in practice, undertake further investigations than those undertaken so far. If it is subsequently established that contamination exists at the site or on any neighbouring land or that the land has been, or is being, put to any contaminative use then this might reduce the value now reported.

This report has been produced as and when appropriate in accordance with any relevant RICS Guidance Notes and Information Papers.

This report is provided solely for the purpose stated above. It is confidential to and for the use only of the party to whom it is addressed, and no responsibility is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

If the content of this report is to be relied on as part of a planning appeal, further consultation would be expected at that stage, and take into account any additional evidence available before the case reaches the appeal stage. Seeking legal advice would also be recommended.

Any complaints or issues arising out of the Report will be in accordance with Capita's complaints handling procedure, a copy being available on request. The Report may be subject to monitoring under RICS' conduct and disciplinary regulations.