

**Sites Identified for Possible
Inclusion in the Ripley
Neighbourhood Plan**

PRELIMINARY VIABILITY REPORT

AUGUST 2013

Produced by:

Planning Design Practice Ltd
4 Woburn House
Vernon Gate
Derby
DE1 1UL

01332347371

Document Control Sheet

Project Name	Ripley Neighbourhood Plan
Client	Ripley Town Council
Project Reference	908
Project Lead	Jon Millhouse
Team Members	Paul Nellist

Version	File Name	Description	Prepared	Checked	Date
01	908_VA_02D	Final Draft	PN	JM	30/8/13
02	908_VA_02	Final	PN	JM	11/07/14

Produced by:

Planning Design Practice Ltd
4 Woburn House
Vernon Gate
Derby
DE1 1UL

01332347371

Contact:

info@planningdesign.co.uk

CONTENTS

1	INTRODUCTION.....	3
2	VIABILITY AND CONTEXT.....	4
3	METHODOLOGY	6
4	ASSUMPTIONS	10
5	ANALYSIS.....	14
6	SUMMARY AND CONCLUSION.....	19

1 INTRODUCTION

- 1.1** Planning Design Practice Ltd is a town planning and architecture consultancy with chartered town planners and an architectural design team. The practice provides planning advice and design proposals to Local Authorities in the East and West Midlands, and with over 40 years combined experience in the team; the company has an excellent record and operates in a fair and open way.
- 1.2** Planning Design has been instructed by Ripley Town Council to assess the viability of housing sites selected for possible inclusion within the Ripley Neighbourhood Plan.
- 1.3** Naturally at this stage of preparation of the Ripley Neighbourhood Plan specific details of how and when a site will be developed cannot be known. This preliminary viability report therefore employs an adapted methodology designed to give an indication of the potential of each selected site to be viable, rather than appraising the viability of a site based on a specific development scheme. A full viability appraisal of each site can only be carried out when a development scheme and site layout have been produced and the house numbers decided.

2 VIABILITY AND CONTEXT

- 2.1 The second 'Core Planning Principle' contained in The National Planning Policy Framework (NPPF), is "Ensuring the vitality of town centres." At paragraph 173 the NPPF states:

"Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. 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."

- 2.2 The intention is to allocate housing sites as part of the Ripley Neighbourhood Plan to work alongside the emerging Amber Valley Local Plan as part of the Derby Housing Market Area for the period up to 2028.

- 2.3 In the context of the long 'pre credit-crunch' period of sustained economic growth, both the commercial and residential property markets in the UK have significantly retracted in the last 5 or so years. The result has been a decrease in value of both commercial and residential property, which has significantly reduced the viability of residential and commercial development.

- 2.4 Wider economic and financial concerns have reduced overall confidence in the market further, particularly that of developers, investors, and lenders. The reduced certainty in the residential property market has resulted in less liquidity to finance and fund residential developments, and looks set to continue for years to come.

- 2.5 In the pre-amble to policy H4, the Amber Valley Draft Core Strategy states that the Council is:

"Reliant to a large extent on recent appeal decisions and case law that has developed over the last few years during the economic downturn. These decisions demonstrate that viability of a proposed development site is a material consideration and the local planning authority have a clear duty to have regard to viability issues both in the context of plan making and decision making."

- 2.6** The Council has therefore made a provision for changing market conditions over the plan period by including Policy H4: “Viability of Proposed Housing Sites” in the Amber Valley Draft Core Strategy. It states:

“To enable the Council to effectively and reasonably consider viability matters when considering proposals for residential development, the following key steps will be followed:

1) The developer provides sufficient detailed financial information to enable a full assessment of viability to be carried out

2) An independent chartered surveyor is instructed by the Council and the developer to provide an independent professional opinion on the submitted financial information to establish if the scheme is viable and therefore in turn can be delivered

3) If the scheme is unviable with all the relevant Section 106 contributions the independent chartered surveyor will undertake sensitivity testing, which will be dependent upon how unviable the scheme is and the local circumstances

4) The professional advice provided by the independent chartered surveyor will consider whether or not to take a flexible approach to the level of Section 106 on and off site contributions to be secured through the development, ensuring that it is reasonable in all respects. The Section 106 agreement shall include a review mechanism to ensure that if the viability position changes that the negotiated contributions are reassessed

- 2.7** It must be noted therefore, that the purpose of this report is to assess the potential ability of each site to be viable when considered in the context of the current market conditions. Market conditions will undoubtedly change over the period up to 2028 and a full viability appraisal of any site should take this into account at the time the site is to be developed.

3 METHODOLOGY

- 3.1 The methodology used in this viability appraisal is based largely on the 'Financial Viability in Planning' guidance document published by the RICS in August 2012. Paragraph 3.4.3 of that document states:

“The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations. Any planning obligations imposed will need to be paid out of this uplift but cannot use up the whole of this difference, other than in exceptional circumstances, as that would remove the likelihood of the land being released for development.”

- 3.2 This report uses the residual method of development appraisal which is well known in the development industry and compares all revenues that could be generated by the proposed development to the likely construction costs involved. The approach assumes a set level of profit that the developer would require in return for the risk involved, in order to ensure that the proposed development is a viable and attractive proposition from a private sector developer's point of view.
- 3.3 Essentially then, for a development to be viable, there must be a competitive return for the landowner and developer. Planning Inspectorate appeal decision APP/X0360/A/12/2179141 relating to Land at the Manor, Shinfield, Reading, RG2 9BX established what the reasonable level of return for the landowner should be when assessing viability. The appeal Inspector found that 50% of the uplift in value of a site should go to the landowner, with the other half going to meet planning obligations and/or provide affordable housing.
- 3.4 In order to assess the viability of a proposed development, at least three different scenarios must be compared for each site.

Scenario 1 – Current use value (CUV)

Scenario 2 – Proposed scheme with no planning obligations or affordable housing

Having established the current use value in scenario 1, scenario 2 is used to establish the **benchmark site value** by comparing scenarios 1 and 2 and assessing the 50% uplift figure as a result of developing the site with the housing scheme tested.

Scenario 3 – Proposed scheme with 30% affordable housing

With the site benchmark value established by comparing scenarios 1 and 2, the viability of the site can be assessed by comparing scenario 3 to the site value benchmark.

Scenario 4 – Proposed scheme with varying levels of affordable housing

If Scenario 3 (30% affordable) is not viable, the scheme is tested with varying levels of affordable housing to determine the maximum level of affordable housing that is viable.

- 3.5** The result of the viability appraisal is a residual land value which indicates whether the scheme is viable and feasible. A negative residual land value indicates that a scheme is not viable based on the assumptions made, and will not realistically come forward. A positive residual land value however indicates that the scheme may be viable. Ultimately, viability depends on comparing the **residual land value** with the **benchmark land value**.

Current Use Value of the Site

- 3.6** For Greenfield sites, land is normally assumed to have a use value as agricultural/grazing land at an estimated £8,000 to £9,000 per acre.
- 3.7** Not all sites identified are Greenfield land however, some having former industrial uses and have undergone various amounts of demolition/site clearing. If buildings exist on a site, for example a warehouse, a certain current use value is attached to that use.
- 3.8** Without further detailed investigation, that is not currently possible on all sites due to ownership/access issues it is not possible to accurately value every site. For example, a site may be occupied by a warehouse with a given floor area. The building may however be unsound structurally and therefore not worth the estimated current use value.

3.9 Further detailed work is also needed to assess what level of de-contamination is required on brownfield sites. This level of investigation is also beyond the scope of this investigation.

3.10 In order to provide an initial assessment of all the identified sites, without the benefit of further detailed investigation work, the assumption has been made that all sites are unsuitable for any use except housing and therefore all sites have a current use value of zero.

Proposed Scheme for Each Site

3.11 In order to simulate a proposed development scheme for each site, Boxall Brown and Jones Chartered Surveyors have been commissioned to provide a reasonable estimation of the following for each site:

- Mix of housing that is appropriate to each site (in percentage terms e.g., 60% 3 bed houses, 40% 1 bed flats);
- Average floor area of each dwelling type;
- Average build prices per m²
- Average sale prices per m²

3.12 Using the mix of housing provided by Boxall Brown and Jones (Appendix B), in combination with the calculated number of dwellings each site can accommodate (Appendix A), and other assumptions made (section 4), an indicative scheme can be assumed and then tested.

Affordable Housing Element

3.13 Policy H3: “Affordable Housing” of the Amber Valley Draft Core Strategy States:

“In order to help meet affordable housing needs, all development on any sites of 0.5 hectares or more (or 15 dwellings or greater) will be expected to provide 30% of the gross number of dwellings as affordable housing.

Normally, 90% of the affordable homes should be for ‘social’ rent (or equivalent), with the balance being ‘intermediate’ affordable housing.

Affordable housing should be provided on-site, indiscernible from and well integrated with market housing, unless off-site provision would better meet priority housing needs and support the creation of inclusive and mixed communities.

Affordable housing should remain available for as long as a need exists. In considering housing proposals the aim will be to balance housing needs, the economics of provision and local circumstances.

If it is considered that the provision of this amount of affordable housing would render a scheme unviable, the applicant will be required to follow the procedure for processing applications for schemes that cannot meet normal policy requirements, as set out in policy H4.”

- 3.14** Therefore, when testing the viability of each site, 30% affordable housing is tested, with a social rented/shared ownership split of 90%/10% on each site.

- 3.15** Where a site is found to be unviable at 30% affordable housing, further appraisals are run to determine the level of affordable housing that would make the site viable. This process although indicative at this stage, would be broadly in line with Policy H4 of the Amber Valley Draft Core Strategy.

4 ASSUMPTIONS

Revenue

- 4.1 Based on the advice of Boxall Brown and Jones, sales prices on each site are given within the in Appendix B.
- 4.2 A percentage reduction has been applied to market values to estimate affordable sales values. A 35% reduction (value = 65% of market value) has been applied for shared ownership dwellings, and a 65% reduction assumed for social rented dwellings (value = 35% of market value). It is assumed that a Registered Social Landlord (RSL) or Registered Provider (RP) is able to secure finance to acquire the affordable element of the scheme at the values assumed, which are in-line with market practice.
- 4.3 Also in-line with market practice, the developers acquisition costs are assumed as:

Stamp Duty – 5%

Agent's Fee – 1%

Legal Fees – 0.8%

Total = 6.8%

Costs

- 4.4 **Construction Costs** – build cost assumptions for each site are based on the advice of Boxall Brown and Jones (Appendix B). All construction costs are exclusive of external works, contingencies and fees as is standard practice.
- 4.5 **Site Access and Roads** – Based on an analysis of several previous housing developments Planning Design has been involved with, site accesses and roads have been estimated at covering an average of 167 linear metres per hectare for primary roads and 56 metres per hectare for secondary roads.
- 4.6 an allowance of £570 per linear metre is assumed for the main site road, with £255 per

linear metre assumed for secondary roads, Street lighting every 25 metres and an allowance of £1,500 per lighting element.

- 4.7 External Utilities** – Based on an analysis of several previous housing developments Planning Design has been involved with an allowance of £1385 per dwelling has been assumed for providing electric infrastructure, and £925 per dwelling for gas and water infrastructure. Ground preparation of £25 per linear metre of road for each service (gas, water and electric) has also been assumed.
- 4.8 Developer’s Contingency** – Boxall Brown and Jones have recommended a contingency rate for each site which has been applied to build costs.
- 4.9 Landscaping** –Based on analysis of several previous housing developments Planning Design has been involved with, landscaping costs vary greatly from around £10,000 - £80,000 per hectare. The cost of landscaping depends on several factors including the amount of screening needed, features such as public open space, and the quality of the local built environment (e.g. dry stone walling is relatively expensive compared to other boundary treatments). Given that none of the sites identified are within a Conservation Area or particularly sensitive location, a below average ‘per hectare’ costs should be used. However, without a more developed indicative scheme or proposal for each site, it is difficult to accurately estimate the level of landscaping needed. Therefore, to provide more of a catch-all estimation of landscaping costs, the ‘per hectare’ cost should be estimated slightly higher. Considering all the above, and assuming that all public open space would be provided on site, it is considered that a reasonable ‘per hectare’ landscaping cost is £25,000 per hectare.
- 4.10 Professional Fees** – a standard allowance of 10% professional fees has been assumed.
- 4.11 Construction Finance** - we have assumed a debt interest rate of 7%, assuming that a developer/house builder is able to secure development finance in the current market. For construction finance, the 7% interest rate has been applied to cost of providing roads and services (utilities) to the site, to enable the site to be developed. The length of time the interest rate has been applied over is 2 years.

- 4.12 Land Finance** - The cost of land finance depends on, amongst other factors, the sale price of the land. As this appraisal is to determine the residual land value and no sale price is yet determined, the cost of land finance is not included at this stage. The cost of land finance will impact on the overall viability of the scheme at a later stage.
- 4.13 Marketing** – a reasonable estimated marketing budget per dwelling has been provided for each site by Boxall Brown and Jones.
- 4.14 Disposal Fees** – the following disposal fees have been allowed for in line with market practice:
- Sale Agent's Fee - 1% GDV
 - Sales Legals Fee – 0.5% GDV
- 4.15 Developers Return for Risk (Profit)** – A reasonable developer's return for risk (profit) between 15% and 20% of GDV (Gross Development Value) has been provided by Boxall Brown and Jones which is in line with current market expectations and recent appeal decisions.

Limitations

- 4.16** The calculations contained in this viability report do not take section 106 agreements and other planning contributions into account.
- 4.17** No land finance costs are included in the appraisals detailed above as these costs can only be known once the purchase price of any site is agreed. As the developer's profit is set at 20% of the Gross Development Value, any land finance costs will come directly off the residual value of the land.
- 4.18** The Borough Council may be able to secure grant funding for some of the affordable housing on a site, which would remove the construction cost and sales value of each affordable unit funded, effectively making a scheme more profitable compared to a higher level of affordable housing provision. The site would be more likely to be viable in this regard.
- 4.19** For brownfield sites, an element of remediation or de-contamination will often be required and/or re-location of existing businesses on the site. As far as possible, these anticipated

additional costs are addressed by a higher developer's contingency rate provided by Boxall Brown and Jones.

- 4.20** It is recommended that the results of this viability report are seen as being indicative of the potential to be viable. Any subsequent full viability appraisal of a site should be made on the basis of further investigative works regarding current use value and de-contamination costs etc.

5 ANALYSIS

5.1 Detailed Analysis for each site is contained in Appendix C. Each site is assessed with no element of affordable housing to provide a benchmark figure for site viability. Each site is then assessed with 30% affordable housing and compared to the benchmark figure.

Site	4 – Land off Heage Road, Ripley
Area (Ha)	7
Number of Dwellings	143
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£3,495,700
100% uplift from CUV to scenario 2	£3,495,700
50% uplift from Scenario 1 to Scenario 2	£1,747,850
Benchmark for site viability (CUV plus 50% uplift)	£1,747,850
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	£1,288,670

Site	5 - Part of former Butterley Engineering Site
Area (Ha)	1
Number of Dwellings	41
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£823,090
100% uplift from CUV to scenario 2	£823,090
50% uplift from Scenario 1 to Scenario 2	£411,545
Benchmark for site viability (CUV plus 50% uplift)	£411,545
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	£279,140

Site	6- Land off Bridle Lane
Area (Ha)	0.27
Number of Dwellings	8
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£53,657
100% uplift from CUV to scenario 2	£53,657
50% uplift from Scenario 1 to Scenario 2	£26,828
Benchmark for site viability (CUV plus 50% uplift)	£26,828
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	n/a

Site	7 - Land off A610
Area (Ha)	5.5
Number of Dwellings	100
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£2,373,165
100% uplift from CUV to scenario 2	£2,373,165
50% uplift from Scenario 1 to Scenario 2	£1,186,582
Benchmark for site viability (CUV plus 50% uplift)	£1,186,582
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	£829,787

Site	8 - Land off Cemetery Lane
Area (Ha)	0.5
Number of Dwellings	15
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£144,230
100% uplift from CUV to scenario 2	£144,230
50% uplift from Scenario 1 to Scenario 2	£72,115
Benchmark for site viability (CUV plus 50% uplift)	£72,115
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	-£55,473

Site	9 - Land off west of Derby Road (B6179)
Area (Ha)	0.74
Number of Dwellings	15
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£168,968
100% uplift from CUV to scenario 2	£168,968
50% uplift from Scenario 1 to Scenario 2	£84,484
Benchmark for site viability (CUV plus 50% uplift)	£84,484
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	-£30,735

Site	10 - Land off east of Derby Road (B6179)
Area (Ha)	0.89
Number of Dwellings	27
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£411,267
100% uplift from CUV to scenario 2	£411,267
50% uplift from Scenario 1 to Scenario 2	£205,633
Benchmark for site viability (CUV plus 50% uplift)	£205,633
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	£51,801

Site	11 - Land off Peasehill
Area (Ha)	1.07
Number of Dwellings	32
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	-£67,904
100% uplift from CUV to scenario 2	n/a
50% uplift from Scenario 1 to Scenario 2	n/a
Benchmark for site viability (CUV plus 50% uplift)	n/a
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	n/a

Site	12 - Land off Nottingham Road (A610)
Area (Ha)	5.13
Number of Dwellings	126
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	£3,282,359
100% uplift from CUV to scenario 2	£3,282,359
50% uplift from Scenario 1 to Scenario 2	£1,641,180
Benchmark for site viability (CUV plus 50% uplift)	£1,641,180
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	£1,293,951

Site	15 - Former Butterley Brick Site
Area (Ha)	5.67
Number of Dwellings	110
Scenario 1 – Current Use Value	£0
Scenario 2 – Residual Land Value Proposed scheme (no affordable housing)	-£1,410,473
100% uplift from CUV to scenario 2	-£1,410,473
50% uplift from Scenario 1 to Scenario 2	-£705,237
Benchmark for site viability (CUV plus 50% uplift)	-£705,237
Scenario 3 – Residual Land Value (Proposed scheme with 30% affordable housing).	-£1,231,208

6 SUMMARY AND CONCLUSION

- 6.1** The table below summarises the benchmark figure for each site, the residual land value at 30% affordable housing, and whether the site has the potential to be viable at 30% affordable housing.
- 6.2** Sites 11 and 15 were assessed as having a negative residual land value at 0% affordable housing, therefore not viable, and a benchmark uplift figure was not calculated.
- 6.3** Site 6 was below the thresholds of 15 dwellings and/or 0.5 hectares so would not be required to provide affordable housing, so has not been assessed for any level of affordable housing.

Site	Benchmark Uplift Figure	Residual Land Value (30% Affordable Housing)	Viability at 30% Affordable
4 – Land off Heage Road, Ripley	£1,747,850	£1,288,670	Not Viable
5 - Part of former Butterley Engineering Site	£411,545	£279,140	Not Viable
6- Land off Bridle Lane	£26,828	n/a	n/a
7 - Land off A610	£1,186,582	£829,787	Not Viable
8 - Land off Cemetery Lane	£72,115	-£55,473	Not Viable
9 - Land off west of Derby Road (B6179)	£84,484	-£30,735	Not Viable
10 - Land off east of Derby Road (B6179)	£205,633	£51,801	Not Viable
11 - Land off Peasehill	n/a	n/a	n/a
12 - Land off Nottingham Road (A610)	£1,641,180	£1,293,951	Not Viable
15 - Former Butterley Brick Site	n/a	n/a	Not Viable

6.4 Where a site isn't potentially viable at 30% affordable housing, further analysis was carried out to determine what percentage affordable housing the site could accommodate and still be potentially viable. The table below shows the level of affordable housing that each site can accommodate and still be potentially viable.

Site	Scenario 4	Residual Land Value (at given percentage of Affordable Housing)	Benchmark Uplift Figure
4 – Land off Heage Road, Ripley	Scenario 4 – Residual Land Value (Proposed scheme with 24% affordable housing).	£1,775,654	£1,747,850
5 - Part of former Butterley Engineering Site	Scenario 4 – Residual Land Value (Proposed scheme with 23% affordable housing).	£414,363	£411,545
6- Land off Bridle Lane	Scenario 4 – Residual Land Value (Proposed scheme with 0% affordable housing).	£26,828	n/a
7 - Land off A610	Scenario 4 – Residual Land Value (Proposed scheme with 24% affordable housing).	£1,198,715	£1,186,582
8 - Land off Cemetery Lane	Scenario 4 – Residual Land Value (Proposed scheme with 10% affordable housing).	£86,066	£72,115
9 - Land off west of Derby Road (B6179)	Scenario 4 – Residual Land Value (Proposed scheme with 13% affordable housing).	£89,573	£84,484
10 - Land off east of Derby Road (B6179)	Scenario 4 – Residual Land Value (Proposed scheme with 17% affordable housing).	£217,402	£205,633
11 - Land off Peasehill	n/a	n/a	n/a
12 - Land off Nottingham Road (A610)	Scenario 4 – Residual Land Value (Proposed scheme with 25% affordable housing).	£1,681,326	£1,641,180
15 - Former Butterley Brick Site	n/a	n/a	n/a

6.5 Sites 11 and 15 are not viable, even with no affordable housing provided.

6.6 Site 6 would not be required to provide and affordable housing due to it being below the thresholds contained in the Amber Valley Draft Core Strategy Policies.

6.7 The remaining sites could provide the following levels of affordable housing and be potentially viable:

Site	level of affordable housing to be potentially viable
4	24%
5	23%
7	24%
8	10%
9	13%
10	17%
12	25%

The Planning Design Practice Ltd

www.planningdesign.co.uk

info@planningdesign.co.uk

Tel: 01332 347371

Derby

4 Woburn House
Vernon Gate
Derby
DE1 1UL

Matlock

Bentley Brook Studio
Lumsdale Road
Matlock
Derbyshire
DE4 5EW

Macclesfield

Waters Green House
Waters Green
Macclesfield
Cheshire
SK11 6LF