



WNDC

**Review of the viability of residential
and commercial development in the
WNDC area**

July 2010

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For and on behalf of
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1 REVIEW OF THE VIABILITY OF RESIDENTIAL AND COMMERCIAL DEVELOPMENT IN THE WNDC AREA

1.1 INTRODUCTION

The potential for developments to finance planning obligations and affordable housing in the WNDC area has been reviewed taking account of the changes in market conditions and other factors which have become relevant since the appraisals for the Planning Obligations Strategy were prepared in 2007/8. Those appraisals are set out in Annex C to the Technical Report, published in December 2008.

The intervening period has witnessed particularly difficult market conditions and a full set of revised appraisals has been prepared for residential development, based, as before, on standard 'clean development sites'. We have also reconsidered commercial sites. It should be emphasised that because of the unpredictable and wide ranging problems associated with brownfield sites such as contamination, they should be subject to site-by-site assessment and have not been explicitly modelled in this exercise. The modelling exercise considers the range of open market sale values and build costs being achieved across the WNDC area as at the end of 2009. It also takes account of the potential for increases in values in the medium term.

The issue of uncertainty in assessing costs and values has been widely considered in relation both to policy and individual sites at examinations, inquiries and in the courts.

1.2 ADVICE FROM RECENT APPEAL AND COURT DECISIONS

There have been a number of recent appeal decisions by the Secretary of State, advised by Inspectors, about how local planning authorities should consider the issue of development viability. These acknowledge the Secretary of State's desire to enable development to be expedited in the short term, while balancing the reasonable expectations of planning authorities that planning permissions should not be granted in circumstances where lack of infrastructure or other planning reasons would make the grant of permission otherwise unacceptable. This issue has also been considered in recent High Court cases.

In December 2009, local planning authorities were relieved by Mr Justice Pritchard's decision on Barratt's challenge to Wakefield Council's Core Strategy. The challenge focused on the methodology that the Council and its advisors had adopted to demonstrate that its affordable housing policies were economically viable and deliverable.

The challenge, and the issues that arise from it, go to the crux of how planning and affordable housing policies address cyclical housing market conditions. After the long period of virtually unbroken growth in house prices ended in late 2007 local authorities and central government have been grappling with the need to maintain affordable housing supply, while also applying their requirements flexibly enough to avoid sterilising sites. Core Strategy policies and in this case, WNDC's review of its Planning Obligations Strategy, therefore need to be crafted to achieve an appropriate balance.

Affordable housing policies are, in theory at least, set for the entire life of a Core Strategy, at least fifteen years in most cases, although in reality they will be reviewed every few years. Barratt argued that the house price growth that the Council's target relied upon could not be guaranteed. Therefore, they argued, the Council should set its affordable housing target based on *current* market conditions, disregarding any potential future improvements in viability. This would have meant a target of 5%, *at best*, despite proven need for a much greater proportion of affordable housing.

Central to the Barratt challenge was the concept that many advisors to local planning authorities have adopted (including ourselves), namely that the viability of affordable housing and planning obligation targets should be tested in both current *and improved* market conditions. Local authorities then adopt the highest possible affordable housing target (based on those improved market conditions), recognising that the target may not be achieved on individual sites until sales values increase. Barratt argued that affordable housing percentages should be 'stepped' in some way. Mr Justice Pritchard's conclusion was that this was "*doomed to failure because of the difficulties of accurate prediction and definition*".

Had the challenge been upheld, the consequences are that local planning authorities would have had to unwind their affordable housing policies and adopt much lower targets. This case has helped to confirm our view that it is appropriate to consider both current and improved market conditions, provided that the assessment of improved conditions is reasonable taking account of the timescale that applies to the policy concerned. Our revised modelling exercise for WNDC continues to test a wider range of values than those current.

The issue of landownership and expectations of future land values are critically important in moving the discussion about the planning obligations strategy from the realm of illustrative appraisals into the real world.

Our view on these issues, which is central to the widely accepted residual valuation method, is that the 'real' value(s) of a potential development site can only be assessed in two ways:

- as an 'Existing Use Value' (EUV) i.e. its capitalised value in its existing use, taking account of its future life and condition (potentially after refurbishment) plus an appropriate premium to incentivise the landowner ; or
- as a 'residual development or land value', which is derived from a development appraisal, and which is based on a development scheme or schemes which would obtain planning permission (i.e. which take account of any on-site abnormal costs, the costs of essential infrastructure without which the development could or should not be allowed to proceed and any other planning obligations which are lawful and required by the planning authority).

Recent appeal decisions have considered the principle of 'reasonableness' when inspectors have been asked to rule on land acquisition deals already made by developers with landowners, at some earlier date when values were higher. Where deals were done at inflated values, Inspectors have been prepared to say that these should be ignored or scaled back for the purposes of viability appraisal.

In the appeal decision relating to Countryside Properties at Clay Farm Cambridge (APP/Q0505/A/09/2103599/NWF) issued in February 2010, the Secretary of State went further. In particular, he concluded that *'the appellant's approach to assessing viability (based on acquisition cost) has the effect of protecting historic land values as well as insulating the developer against a risk for which he is already indemnified by profit margins and that this would be at the expense of affordable housing.* He agreed *'that the residual land value (RLV) approach used by the Council ...is the appropriate methodology for evaluating the economics of ... developments.'* (para 11 of the decision letter).

This decision supports ERM's established approach to viability assessment. The decision may, of course, be challenged and the site specific circumstances of transactions still need to be considered. As a general rule, private landowners rarely proceed with a redevelopment unless the residual value they will receive is not comfortably in excess of the 'existing use value'. There are no fixed requirements as to the size of that premium. Indeed, during the recent adverse conditions, there have been many 'distressed' sales with little or no premium. In more normal conditions however, the premium on sites with previously developed uses would usually be within the range from 15 to 30%.

In the case of agricultural land, the premium expected depends on the scale of the transaction and the attitude and circumstances of the landowner. This could lead one landowner to accept, say, £200,000 per acre, while another would be unwilling to proceed for twice that amount. This is difficult to capture in illustrative modelling.

1.3 *MODELLING RESIDENTIAL RESIDUAL LAND VALUES*

1.3.1 *Methodology*

A central element in this review is an up to date analysis of local property conditions in order to determine the capacity of development proposals to deliver infrastructure and affordable housing as required. In other words, is there sufficient gross development value and thus residual land value to pay for infrastructure?

The basic approach to modelling residual land values is the same as that adopted in 2007/8, refined to take account of market and policy changes since that time. A wider range of scenarios has been tested covering sales prices, construction costs, profit margins and availability of grant for affordable housing. In summary, the scenarios tested were as follows:

- a. A planning obligation of £10,000, £15,000 or £20,000 per dwelling;
- b. A planning obligation of £10,000, £15,000 or £20,000 per dwelling plus the provision of 0%, 25%, 35% or 40% affordable housing units with a 70-30% tenure split in favour of social rent, assuming 'With Grant' at £15,000 per person for social rent units and £7,000 per person for intermediate tenures. The grant assumptions are based on recent affordable housing grant settlements on RSL schemes in the area;
- c. A planning obligation of £10,000, £15,000 or £20,000 per dwelling plus the provision of 0%, 25%, or 35% affordable housing units with a 70-30% tenure split in favour of social rent, assuming No Grant;
- d. All the above scenarios with profit margins at 17%, 20% and 25% on value.

The full appraisal tables for the residential 'With Grant' scenarios are included in *Annex A* and those for the 'No Grant' scenarios in *Annex B*. Illustrative commercial appraisals are in *Annex C*.

1.3.2 *Assumptions*

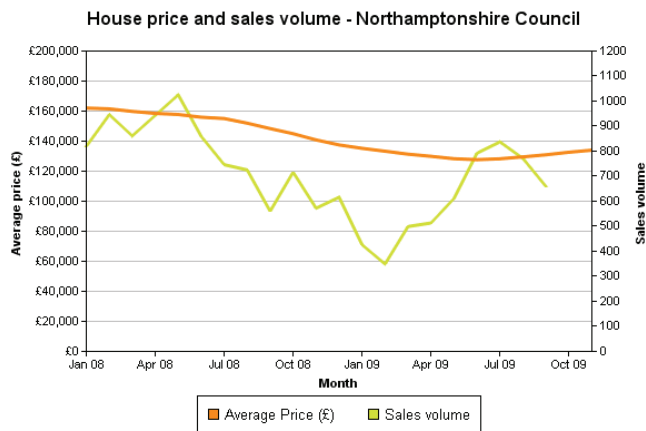
For the purposes of this benchmarking exercise, we have adopted values and costs based on actual development appraisals in West Northamptonshire, together with agent and cost consultant advice. Details of the assumptions are in *Annex D*. In summary, we have modelled the following ranges of assumptions:

- sales values between £1,615psm (£150psf) and £5,382psm (£500psf). Present market values are towards the lower end of this range, as discussed below;

- densities between 30 and 100 units per hectare, which will be normal range for sites in West Northamptonshire;
- present construction costs, which are between £1076psm (£100psf) and £1,761psm (£164psf), including a 5% contingency and 5% for ancillaries, and gross to net floorspace ratios between 100% and 85% reflected in the base costs;
- professional fees at 10%; and
- developer profit margins at 17%, 20% and 25%, reflecting at the high end, the present reluctance of banks to lend to house builders at lower margins; and
- Existing Use Values, as set out below.

Some assumptions require further explanation with particular reference to changes in market conditions since 2007, including profit margins and Existing Use Values.

1.3.3 Market Conditions



The 2007 analysis coincided with the sharp decline in the housing market and, as demonstrated above, while there are clear signs of recovery recorded in Land Registry evidence, there is still some way to go for values to be restored and transaction numbers to return to more normal levels. Overall, while average values show a marked improvement in the final quarter of 2009 (see below) with a year on year decline of 4.9% across Northamptonshire, (compare for example the September 2009 decrease of 11.8%), this still shows a shortfall on the national average, currently a decrease of 0.9% year on year, according to the Land Registry.

	Index	Average	Monthly	Annual	Sales
January 2008	288.9	162,045	-0.3	5.9	819
February 2008	287.9	161,509	-0.3	4.7	946
March 2008	284.9	159,802	-1.1	2.6	861
April 2008	282.5	158,474	-0.8	1.0	943
May 2008	281.2	157,754	-0.5	0.0	1,025
June 2008	278.0	155,936	-1.2	-1.3	859
July 2008	276.4	155,056	-0.6	-2.6	746
August 2008	270.9	151,978	-2.0	-5.2	725
September 2008	264.5	148,362	-2.4	-7.9	560
October 2008	258.4	144,961	-2.3	-10.6	716
November 2008	251.1	140,827	-2.9	-13.3	572
December 2008	245.1	137,489	-2.4	-15.4	616
January 2009	241.1	135,221	-1.6	-16.6	426
February 2009	237.6	133,300	-1.4	-17.5	349
March 2009	234.1	131,340	-1.5	-17.8	499
April 2009	231.6	129,911	-1.1	-18.0	513
May 2009	228.7	128,299	-1.2	-18.7	611
June 2009	227.6	127,671	-0.5	-18.1	792
July 2009	228.6	128,251	0.5	-17.3	837
August 2009	230.9	129,530	1.0	-14.8	771
September 2009	233.4	130,918	1.1	-11.8	659
October 2009	236.4	132,613	1.3	-8.5	-
November 2009	238.9	133,989	1.0	-4.9	-

The Land Registry data includes both new and existing houses. Volumes of new house sales are low at present, but it appears that the ‘new house premium’ that used to apply has, temporarily at least, disappeared. At present, there are only small value variations among the three towns in WND. Generally,, in the last quarter of 2009, for standard new and existing modern estate units, Daventry is averaging around £1935 to £2045psm (£180 to 190psf), Northampton is averaging £2045 to £2150psm (£190 to 200psf) while Towcester is achieving about £2260psm (£210psf). There are, however, examples of schemes being offered at low prices, nearer £1720psm (£160psf) while small high specification developments may achieve up to £2690 to £3060psm (£250 to 285psf.) The latter are exceptional.

1.3.4 Construction Costs

While values, in a weak market, are difficult to monitor, base construction costs are subject to closer scrutiny. BCIS and other indices provide a comprehensive review of real costs and while it is clear that base build costs have fallen since late 2007, there are signs that contractors cutting margins – the main reason for lower costs – is bottoming out, and that costs will start to

rise again. Building cost data is collected at the contract level, so represents an average cost from schemes of different scales. Anecdotally, developers will argue that build costs are higher on small schemes, but the costs we have used are certainly valid for the size range of applications considered by WNDC.

Our modelled build costs are reasonably generous but we have, as a precaution, added in a premium for compliance with the Code for Sustainable Homes. These provide for open market private units at Code 3 and affordable units at Code 4 to reflect the next bidding round for affordable housing grant, on top of base costs. (See Summary Table in the top right corner of each data sheet). Based on the Cyril Sweett study for DCLG, the CSH level 3 allowance is 5% above Part L of the Building Regulations whereas CSH level 4 requires an 11% increase. The overall cost for Code compliance is adjusted in each model to reflect the proportion of market and affordable units. While we have adopted this guidance in our modelling, it was based on a 2008 study, not yet updated, although HCA are monitoring costs on their Carbon Challenge schemes. However, base build costs in BCIS increasingly reflect Code 3, as it is being implemented on sites and is flowing through into tender prices. Further technological improvements in building and energy systems are coming into play, reducing the necessary cost premium. For example, the Streif prefabricated process delivers Code 4+ units at or below current Code 3 costs. Overall, therefore, our modelled costs are generous and savings may be achievable.

1.3.5 *Profit Margins*

Developer's' profit 'requirements' are closely correlated with the perceived risk of development. The greater the risk, the greater the profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank to fund a scheme. In late 2007, profit levels were around 17% of Gross Development Value. This was the 'benchmark' profit adopted for example by the GLA in its revised *Development Control Toolkit Model* (previously 15%).

However, following the impact of the credit crunch and the collapse in inter-bank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not determined by developers (although they will have their own view and the boards of the major housebuilders will set targets for minimum profit). The views of the banks which fund development are more important. If the banks do not fund a development, it is unlikely to happen, as developers do not generally carry sufficient cash to fund a proposal from internal reserves. Consequently, future movements in acceptable profit levels will largely be determined by the attitudes of the banks towards residential development. The difficulties of the global banking system have resulted in a much tighter regulatory system which may continue for some time, with UK

banks having to take a much more cautious approach to all lending, but particularly that to property developers. In this context, the banks may not allow profit levels to decrease much lower than their current level, if at all. The minimum generally acceptable profit level is now around 20% on value, while the banks will require some riskier schemes to show a higher projected profit level, of up to 25%.

To demonstrate the effects of these different expectations, our appraisals have been run with three different profit levels, as follows:

- 17%
- 20%
- 25%

At present, it is very difficult to identify a 'real' minimum level of profit that developers will actually apply. Where they are dependent on external bank finance and/or have cautious internal controls, profit margins will be set at the top end of the range. Individual developers, armed with internal funds or who otherwise have the confidence of lenders, may be prepared to accept that an appropriate profit margin for appraisal is lower, around 17 to 20%.

1.3.6 *Existing Use Values*

Existing Use Value (EUV) is central to our modelling, as in all real development circumstances. In practice, there is of course a very wide range of existing uses and thus values and, potentially, an infinite number of appraisal possibilities. For practical purposes, the modelling exercise has to rationalise these options and thus each sheet in the datasets (see Annex A and B) shows:

- In the top table, the Residual Value resulting from the combination of sales values in column 1, density and construction costs in line 1 and the Summary variables shown;
- In the subsequent tables, the Residual Values over and above a range of Existing Use Values are shown. Three EUVs have been selected, likely to reflect values in WNDC. These are (a) a relatively high EUV of £1,852,500 per hectare (£750,000 per acre) which might be low grade offices, (b) a modest EUV of £1,235,000 (£500,000 per acre) which might be poor quality industrial, (c) a nominal landowner expectation for a greenfield site that is largely serviced of £741,000 per hectare (£300,000 per acre), and (d) an agricultural EUV but including £700,000 per hectare infrastructure costs; and
- Yellow cells indicate combinations of financial variants where the residual value fails to exceed EUV. White cells suggest combinations that may be deliverable.

There will of course always be site specific circumstances with different EUVs and the financial outputs shown are necessarily illustrative.

1.4

APPRAISAL OF LIKELY COMMERCIAL RESIDUAL LAND VALUES

We have also reviewed the appraisals of commercial costs and values undertaken in 2007, to bring these up to date. The appraisal testing continues to demonstrate the sensitivity of the financial variables especially for industrial and office space:

- **Industrial.** Hybrid Industrial / B1 residual values at rents at or above £12psf hold up quite well with modest levels of obligations attached but standard sheds normally command rents between £4.50 and £5.50psf and up to £7psf for smaller units. Large B8 rents are currently between £5 and 5.25psf and while these may be able to command some contributions, they are all financially finely balanced and can go negative or conflict with Existing Use Value.
- **Offices.** Follows a similar pattern with good residual values, where rents are at or approaching £25psf but tailing off quickly below that level. This would of course be counteracted to a degree with densities higher than a 1:1 plot ratio but these are unusual.
- **Retail.** As elsewhere, remains the best performer largely because of the relative strength of yields albeit slightly softer than in 2007. Thus for instance, a supermarket with a typical rental between £20 and £25psf produces a strong residual value, even when weighted with obligations. However, other retail warehouses and smaller retail schemes are likely to generate lower rents and thus land values and are less likely to be able to carry significant obligations.

Overall, commercial rents and yields have held up quite well in WNDC and, at their best, can carry obligations at for example £53.8psm (£5psf). The tables in *Annex C* set out the modelling outputs which support this view. There is however a wide range of values and recent transactional evidence has been modest and this may require any standard charge to be applied flexibly at least initially.

1.5

DRAWING CONCLUSIONS ON THE SCOPE FOR 'DEVELOPER CONTRIBUTIONS'

In order to complete the analysis of the potential for planning obligations to help meet the infrastructure and other costs of delivering high quality sustainable communities in the WNDC areas, previous strands of the argument have to be brought together:

- the costs of infrastructure and community facilities provision;
- the likely extent of 'subsidy' that will be required to deliver the desired mix of affordable and market housing. This can, in theory, be derived from one or other (or a combination) of Social Housing Grant or 'cross-subsidy' from the 'profitable' private housing element of the development;
- the costs of land acquisition; and
- the likely net development value that will be achievable under different combinations of housing density and sales values.

1.6

DETERMINING THE APPROPRIATE LEVEL OF RESIDENTIAL DISCOUNTED STANDARD CHARGE

Having completed the updated modelling exercise, it is necessary to consider appropriate levels of discounted standard charge, having reached a judgment about the period over which the policy must remain relevant. Although the POS can be subject to regular review and updating, the proper consideration is the expected build out period for applications, where these are subject to a single planning obligations agreement. Where schemes are to be phased, there can be greater flexibility to vary charges through the build out of the scheme.

It must be stressed that any discounted standard charge is only a 'benchmark' Where developers have good reason to seek a reduction in the charge supported by evidence of extra ordinary costs, WNDC must take this into account, by seeking 'open book appraisals'. The appraisal tables take account of a wide range of permutations in affordable housing mix and grant levels, and these have to be taken into account, in the negotiation of individual sites.

As the appraisal tables indicate, there are numerous variables which will affect the value of the particular site. The art in establishing a 'standard charge' is to set it at a level which can be afforded by the majority of developments, so that the planned level of housing is able to proceed. It effectively acts as a 'benchmark' from which developers have to argue with evidence of 'extra-ordinary' costs, low sales values, or other limitations which affect their returns. The starting place for setting the charge must be that developers are sophisticated and will ensure that any costs legitimately imposed by the planning system are passed on to the landowner.

It is entirely legitimate for the planning authority to take a view on likely future values over the life of the development. The difficulty, at present, is that there is no consensus among analysts about the likely future uplifts in residential development values. Given the uncertainty around other parameters, such as profit margins and residual value expectations among landowners, this presents WNDC with a difficult challenge in determining one or more appropriate baseline DSCs.

The effect of 'standard charges' on residential residual land values is set out in full in the dataset. The index to the dataset (with and without grant) is hyperlinked to enable quick comparisons between different scenarios. Each datasheet is also presented in 'traffic light' format; that is a red light where residual values are markedly below existing use value and will not proceed without significant changes such as the availability of 'gap' funding (See para.B12 of Circular 05/05); an amber light for those schemes where residual value approaches EUV and a green light where residual value exceeds EUV plus a 15% premium, which should be regarded as the minimum premium necessary.

The financial variables are clearly very sensitive to change and the following tables illustrate this point by focussing on a single example and extracting the residual value results for the most likely 'greenfield' site scenarios in WNDC and the impact in particular of some growth in house prices in the foreseeable future. Having said that, in looking at the prospects for the mainstream housing market, in 2010 we are facing events with the potential capacity to discourage house purchases in the short and medium term. The uncertainty preceding an election, the prospect of public spending cuts, higher taxes, continuing mortgage rationing, further unemployment, possible stock market correction, inflation or future interest rate rises, all have the potential to impact the mainstream housing market, even if the timing of such impacts is difficult to predict. All this means that we have probably not seen the last of house price falls in the mainstream markets yet. The timing may be uncertain but there will almost certainly be peaks and troughs during the next five years.

Summary of Residential Residual Values showing the effect of a 10% increase in sales values - £s per hectare (over and above EUV)

Assumptions: Low/Medium density (40dph). £2368psm sales value. £1199psm build costs. 20% Profit Margin. Existing Use Value – Low/Medium. (£741,000 per hectare)

Split	AH – 0%	AH – 25%	AH – 35%	AH – 40%	AH – 0%	AH – 25%	AH – 35%
70-30% split >	With Grant				Without Grant		
Planning Obligations							
0	401,016	73,637	-57,315	-122,792	401,016	-415,665	-744,101
10,000	7,761	-321,262	-452,871	-518,676	7,761	-813,329	-1,146,083
15,000	-191,072	-520,095	-651,704	-717,508	-191,072	-1,014,487	-1,347,533
20,000	-389,905	-718,927	-850,679	-917,444	-389,905	-1,215,936	-1,548,982
	Assume an increase in Sales Value to £2691psm and no other changes						
0	1,043,592	578,054	391,839	298,732	1,043,592	92,713	-289,592
10,000	651,165	185,627	-587	-93,695	651,165	-302,926	-687,258
15,000	454,952	-10,585	-197,195	-290,948	454,952	-501,759	-886,711
20,000	258,759	-208,524	-396,028	-489,779	258,759	-700,591	-1,088,161

Some growth in sales values is clearly essential, if a landowner on a greenfield site is to receive say £741,000 per hectare (£300,000 per acre) however, as

shown, with approximately 10% growth, delivering between 25% and 35% affordable housing with grant and £10 to 15,000 standard charge is likely to be deliverable.

This outcome assumes all other financial variables remain the same but if say savings in build costs of 5% are achieved, CFSH costs are reduced by say £2500 per unit and the developer reduces profit margins from 20% to 18% of value, all relatively modest changes, then residual values are improved by about £460,000 per hectare and the outputs are much more likely to deliver a higher charge and affordable housing. The cumulative effects of applying these changes in assumptions, each of which is reasonable, are shown in the following table. These show, for example, that RVs become positive for all of the 'with grant' scenarios up to 35% affordable housing with a £20,000 standard charge. The 'without grant' scenarios still show negative values at higher levels of standard charge and/or affordable housing.

Summary of Residential Residual Values showing the effect of a 10% increase in sales values and other reasonable changes in assumptions

Split	AH – 0%	AH – 25%	AH – 35%	AH – 40%	AH – 0%	AH – 25%	AH – 35%
70-30%	With Grant				Without Grant		
split >							
Planning Obligations							
0	861,016	533,637	402,685	337,208	861,016	44,335	-284,101
10,000	467,761	138,738	7,129	-58,676	467,761	-353,329	-686,083
15,000	268,928	-60,095	-191,704	-257,508	268,928	-554,487	-887,533
20,000	70,095	-258,927	-390,679	-457,444	70,095	-755,936	-1,088,982
	Assume an increase in Sales Value to £2691psm and other changes						
0	1,503,592	1,038,054	851,839	758,732	1,503,592	552,713	170,408
10,000	1,111,165	645,627	459,413	366,305	1,111,165	157,074	-227,258
15,000	914,952	449,415	262,805	169,052	914,952	-41,759	-426,711
20,000	718,759	251,476	63,972	-29,779	718,759	-240,591	-628,161

1.7

VALIDITY OF THE ERM APPRAISAL MODEL

Development appraisal models based on residual valuations are by definition relatively simple. The Greater London Authority provides an appraisal model that has been designed to assist local planning authorities and developers to establish the maximum viable proportions of affordable housing that individual schemes can provide. This appraisal model operates on a similar basis to other models, including the Homes and Communities Agency 'Economic Appraisal Tool' and commercial packages, such as Circle Developer and ProDev, which are commonly used by developers and RSLs.

In 2007, the GLA toolkit was reviewed, following which several major improvements were incorporated into the 2007/08 version (and subsequent updates). These improvements included an ability to appraise commercial floorspace in mixed use schemes, a full cashflow facility for schemes to be built out over multiple phases or over extended periods and revisions to the guidance notes.

Ultimately however, appraisal models are only as good as the quality and thus reliability of the financial variables that are input. We would not recommend that WNDC prescribe the use of one particular model by applicants, although a set of appraisal guidelines, along the lines of those in Annex D, should be considered.

1.8 *COMMENTARY ON APPROPRIATE LEVELS OF RESIDENTIAL DISCOUNTED STANDARD CHARGE*

Based on our appraisals and experience of developer and landowner behaviour, both in WNDC and elsewhere, the main considerations in relation to residential schemes in the WNDC areas across a range of development sites are that:

- (i) Agricultural landowners do not have a single value below which they will not sell, but £480,000 to £740,000 per hectare (£200,000 to £300,000 per acre) is likely to be acceptable for most owners. This was corroborated by the leading agents who act for landowners eg Carter Jones, Bidwells, Knight Frank in responses to the 2007 study and the general consensus is that land values will not fall any further with the exception of distressed sales.
- (ii) There is no doubt that the sharp downturn in residential sales values has stalled many schemes. The market is showing signs of improvement and house builders are beginning to be more positive about prospects for renewed activity in 2010 and 2011. This is based on expectations of stable or even slightly rising prices, giving buyers the confidence to purchase new houses. Anecdotally, mortgage offers are difficult both to obtain and keep, so buyer confidence is fragile.
- (iii) All of the modelled residential values ignore costs such as off-site highway improvements as well as any other site specific requirements/extraordinary costs, not covered by the charge. If arrangements could be made with, for example, NCC and HA, to bring these within the charge, this would increase certainty.
- (iv) If the 'standard charge' is to work in a majority of cases it cannot be too punitive, otherwise the benefits are lost as every application will be contested through appraisals.
- (v) In 2007/8, house builders were talking openly about accepting a standard charge of around £18,000 on green field sites. Although negotiated under different circumstances, overall contributions in the range between £15 and £18,000 were willingly entered into at the Daventry Inquiries in July 2009.

- (vi) £18,000 per dwelling will remain difficult to negotiate because it depends on one or more of the combination of 'market' improvements, discussed above.
- (vii) On smaller sites, likely to be built out in the next two to three years, the present situation presents real difficulties. Where developers are going to proceed, this will be because they have the land and other deals eg with RSLs and other funders, in place and the scheme works. It is very hard for the LPA to 'double guess' developers. If a lower DSC is set, there is still no guarantee that schemes will go ahead early and larger developers will use this lower DSC as a benchmark, as well. In our view, WNDC should still set a standard rate at or close to £18,000, while allowing/encouraging applicants to submit development appraisals to justify a lower charge on a site by site basis.
- (viii) On larger green field sites, a DSC of £18,000 can be justified, as a benchmark, but, in reality, most applicants will choose to submit a site specific appraisal and argue from that. WNDC would be well advised, in these circumstances, to promote deferred contribution arrangements, benchmarked to the costs and values set out in an appraisal based on a realistic value at which the development will start. Deferred contributions can then be based on this site specific benchmark, using a 'sales value uplift formula'. Given that applicants and WNDC are both likely to favour arrangements which reassess affordable housing on subsequent phases, this may lead to 'phase by phase reappraisals' as a more complex and less desirable solution.
- (ix) There remain difficulties in determining the balance to be secured between affordable housing and other infrastructure contributions. This is made more complicated by uncertainty about both levels of grant and the future demand for intermediate housing ie shared ownership products.
- (x) We would continue to argue that setting different DSCs in each of the three WNDC areas is not strictly technically required, since there is only a 10% differential range in average prices across the three towns. In order to match the DSC more closely with the approach set out in the CIL Regulations, WNDC may choose to set different rates.

Our advice on 'brownfield' sites is necessarily based on a much less exact analysis, which balances the likelihood of more complex layouts, demolition and site clearance and existing use values. Nevertheless, we recommend continuing to applying the same standard charge to brownfield sites as greenfield for formal purposes again with the proviso that developers who can demonstrate exceptional costs such as decontamination may be able to negotiate a reduced charge with WNDC. The threshold that was applied in Northampton town centre should continue or be raised, pending the return of responsibility for smaller schemes to the LPAs.

WNDC is rightly concerned to achieve high quality and to promote 'low carbon' developments. At present, developers can achieve the Code of Sustainable Homes (CSH) Levels 2 or 3 without incurring significant additional costs. From Code Level 4 upwards, extra costs are difficult to assess and in this exercise, we have adopted the CLG advice for Codes 3 and 4 subject to future reviews when technological improvements are likely to have impacted on higher code costs.

1.9 *COMMENTARY ON COMMERCIAL STANDARD CHARGES*

In terms of commercial schemes, there are clearly circumstances where commercial developers will be able to make contributions towards infrastructure but the range of actual/potential schemes and site circumstances is so varied that ERM does not recommend a Standard Charge at this stage, but WNDC should continue to negotiate contributions on a site-by-site basis. The tables in *Annex C* show the potential for identifying a benchmark level of charge, which can be used as a basis of negotiation on individual sites when applicants submit their own viability appraisals.

1.10 *CONCLUSION*

In conclusion, the viability testing process is, as always, a critical part of setting a standard charge. We believe that the approach that we are recommending will be practical and deliverable in most development scenarios and circumstances. There will, however, be particular situations where a genuine case reflecting site specific circumstances can be made by an applicant, and demonstrated through the submission of an appropriate 'open book' development viability appraisal. In these circumstances, WNDC will give due consideration to the viability arguments and weigh these against other material considerations.