Viability Study – Development Delivery Development Plan Document

Report to Exeter City Council

Three Dragons July 2015

July 2015

This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons toolkit and is based on district level data supplied by Exeter City Council, consultation and quoted published data sources. The toolkit provides a review of the development economics of a range of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

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EXECUTIVE SUMMARY

This Study

This report was commissioned by Exeter City Council (ECC) in 2015 in order to assess the viability of the emerging Development Delivery Development Plan Document (DDDPD). The viability study focusses on the residential development planned in the DDDPD[1].

The viability study included local house price and build cost research, and a review of national and local development standards. Consultation with the development industry was used to refine testing assumptions and the Three Dragons Toolkit was used to analyse scheme viability.

This report assesses residential viability through the use of a sample of the sites allocated in the DDDPD as follows:

- Exmouth Junction (175 dwellings)
- RD&E Heavitree (62 dwellings)
- Apple Lane (58 dwellings)
- Eastern Fields (79 dwellings)
- Foxhayes First School (13 dwellings)

The viability testing also includes a generic student accommodation scheme and a generic sheltered housing scheme. The characteristics of the sample sites has been based on consultation with Council officers and some DDDPD site promoters. The larger allocations (Monkerton/Hill Barton, Newcourt and South of Alphington) are already allocated in the Core Strategy and largely benefit from planning permission. They are therefore not tested in this viability study.

The Residential Viability Findings

Overall the DDDPD is viable, based on the case studies tested. This takes into account the costs of complying with the Council's development policies as well as site specific costs (where known), CIL and residual s106, and the DCLG/Council dwelling space standards.

Viability between different sites varies, with development density, site specific costs (including opening up some sites, demolition and decentralised energy networks) and the proportion of net developable land. The site profiles tested were viable except for Exmouth junction (which has significant brownfield site specific costs) and the higher density scenario modelled on the RD&E Heavitree site (50 dwellings per hectare as opposed to the standard assumed 40 dwellings per hectare). Both Exmouth Junction and the higher density scenario RD&E Heavitree site produce a positive residual value but these are below the benchmark land value. While costs associated with bringing brownfield land back into use may be considered to come off land values, there will be a level at which the site owner may not bring forward the site. In these circumstances there may be negotiation about planning obligations or the site may not come forward until values rise.

[1] Employment allocations have been addressed through a separate process, with the 6th October 2014 Employment Allocations Workshop used to guide the development of the DPD, including viability issues.

Sheltered housing for older persons is also viable, including providing target affordable housing. However there is very little viability headroom and small adverse changes in values or costs may render sheltered schemes unviable.

The student accommodation is viable, both in the city centre and in other locations. However these schemes are particularly sensitive to the details of the actual location compared to general housing and sheltered accommodation, as well as the other macro-economic factors which apply to all development (market strength, finance costs etc.).

The case studies have all been tested against a higher cost base in response to discussion at the development industry workshop in June 2015. There is no specific evidence to indicate that the higher costs are the norm and these are included on the basis of sensitivity tests. Using a build cost of 10% above current BCIS rates and a developer return of 22% instead of the standard 20% it was found that there is enough viability headroom for some of the general housing case studies to proceed. However some general housing schemes with additional development or land costs will not be viable unless there is flexibility about the land value benchmarks, and some may not proceed at all. The sheltered housing and student accommodation schemes are rendered unviable by the higher cost basis and neither of these development types are likely to proceed under this scenario. However the current local interest in both these types of development suggest that this scenario does not reflect development conditions in Exeter.

1 INTRODUCTION

1.1 This report was commissioned by Exeter City Council (ECC) in 2015 in order to assess the viability of the emerging Development Delivery Development Plan Document. The viability study focusses on the residential development planned in the DDDPD[2].

1.2 The DDDPD supports the adopted Exeter Core Strategy, which provides the overarching framework for the City and its long-term development over the period up to 2026. The DDDPD will:

- Allocate land for new development.
- Contain 'development management' policies that will be used to determine whether planning applications submitted to the Council should be granted permission.

1.3 Once adopted the Development Delivery DPD will form part of the Council's Local Plan.

1.4 This study follows the 2011 Exeter CIL Evidence Base study undertaken by Three Dragons and RTP (examined in February 2013), and some of the testing assumptions are drawn from this earlier work, updated to take into account the market trends and policy and guidance changes that have taken place in the interim.

1.5 The research used to inform this refresh viability study includes:

- Analysis of Land Registry price paid data for house sales Exeter.
- Review of the national development standards, including the Nationally Described Space Standards (DCLG) for residential development as well as changes to Building Regulations.
- Review of Exeter City Council development standards (as set out in the Core Strategy and the emerging DDDPD).
- Use of updated build cost information from RICS's Building Cost Information Service.
- Development industry workshop (June 2015).
- Consultation with Council officers and some DDDPD site promoters regarding the characteristics and costs of development proposed on sites.
- Use of the Three Dragons Toolkit to analyse scheme.

1.6 This report assesses residential viability through the use of a sample of the allocation sites:

- Exmouth Junction
- RD&E Heavitree
- Apple Lane
- Eastern Fields
- Foxhayes First School

[2] Employment allocations have been addressed through a separate process, with the 6th October 2014 Employment Allocations Workshop used to guide the development of the DPD, including viability issues.

1.7 The larger allocations (Monkerton/Hill Barton, Newcourt and South of Alphington) are already allocated in the Core Strategy (CP19) and are not tested in this viability study.

1.8 The viability testing also includes a generic student accommodation scheme and a generic sheltered housing scheme for older persons.

2 CONTEXT FOR THE ANALYSIS

National Policy Context

2.1 Planning Practice Guidance[3] has been published, providing information on the implementation of the National Planning Policy Framework. This states that:

- Viability assessments should ensure that the Local Plan vision and policies are realistic and provide high level assurance that plan policies are viable[4]. Viability assessments should include the costs of national and local policies/standards; and cumulative cost should not cause development types or strategic sites to be unviable[5].
- Evidence should be proportionate[6] and not every site needs to be tested[7].
- There should be a viability 'buffer'; current costs and values should be used; and *"Where any* relevant *future change to regulation or policy (either national or local) is known, any likely impact on current costs should be considered."*[8]

2.2 The DDDPD contains a number of brownfield sites. Planning Practice Guidance notes that brownfield land can be more expensive to develop and that in setting policies, particular attention should be given to promoting the viability of brownfield sites[9]. Planning Practice Guidance also notes that for brownfield sites, assumptions about land values should clearly reflect the levels of mitigation and investment required to bring sites back into use[10]. Current costs and values should be used in viability assessments[11].

Viability Testing Local Plans Guidance

2.3 The Viability Testing Local Plans Advice for planning practitioners[12] also provides guidance. Much of this guidance can be seen in the current Planning Practice Guidance (cumulative impact of policies, high level reassurance, striking a balance between policy and viability, reasonable returns, current costs etc.). Viability Testing Local Plans also states that benchmark land values should be based on premium over current use values/credible alternative use values.

Local Plan Policies

2.4 S106 contributions will still be required in order to make the development acceptable in planning terms. These will have to meet the three tests:

- Necessary to make the development acceptable in planning terms
- Directly related to the development

[3] DCLG, August 2013 onwards
[4] Paragraph: 005 Reference ID: 10-005-20140306
[5] Paragraph: 007 Reference ID: 10-007-20140306
[6] Paragraph: 005 Reference ID: 10-005-20140306
[7] Paragraph: 006 Reference ID: 10-006-20140306
[8] Paragraph: 008 Reference ID: 10-008-20140306
[9] Paragraph: 025 Reference ID: 10-025-20140306
[10] Paragraph: 025 Reference ID: 10-025-20140306
[11] Paragraph: 008 Reference ID: 10-008-20140306
[12] Local Housing Delivery Group 2012

- Fairly and reasonably related in scale and kind to the development

2.5 This study has used the same allowance for s106/278 as in the 2011 CIL study of £1,300 per dwelling. Exeter City Council has confirmed that this is a generous figure in comparison with recent typical schemes.

2.6 In accordance with the NPPF requirement that viability testing should take into account the costs of any requirements likely to be applied to development (Para 173), this assessment considers the policies in the Core Strategy and the Development Delivery DPD. A review of the policies is presented in Annex 1 and the key implications for this viability assessment are:

- CP4 and CP5 development characteristics and housing need have been considered in the characteristics of the case studies used in this viability assessment, including a sheltered housing scheme as one of the generic case studies.
- CP7 has been used to set the affordable housing proportion and tenure.
- CP13 decentralised energy system connection costs (£2,000/dwg[13]) have been applied to the appropriate case study (RD&E Heavitree)
- DD7 the 5 specific case studies used in the viability assessment have been chosen by Exeter City Council as representative of these 18 sites.
- DD9 the costs of category 2 accessibility for all development (£1,660/dwg[14]) and category 3a accessibility have been used for 5% of affordable housing (£29,300/dwg[15]).
- DD12 student accommodation is one of the two generic case studies used in the viability testing.
- DD13 national space standards have been included in the testing assumptions.
- DD20 cost allowances for small scale site specific transport requirements have been included within the £1,300/dwg[16] s106/s278 allowances used in the viability testing.
- DD22 local open space /children's play (provision and maintenance) included within the £1,300/dwg[17] s106/s278 allowances used in the viability testing and in the gross to net developable assumptions[18].
- DD26 Costs for Building Regulations Part Q (£320/dwg[19]) included in the viability testing.
- DD32 – see CP 13 above.

[13] Based on estimates from E.on less gas connection/boiler costs estimated savings
[14] EC Harris, 2014, Housing Standards Review – Cost Impacts
[15] EC Harris, 2014, Housing Standards Review – Cost Impacts
[16] Exeter City Council 2015
[17] Exeter City Council 2015
[18] Exeter City Council, 2015, SHLAA
[19] EC Harris, 2014, Housing Standards Review – Cost Impacts

2.7 Exeter has adopted a Community Infrastructure Levy (CIL). This currently requires £90.80/sq m for market residential dwellings and £45.40/sq m for student accommodation. These rates are included in the viability testing.

2.8 The DDDPD refers to the future Open Space, Sport and Recreation SPD. It is not yet clear what standards this will require for open space (the outgoing Local Plan First Review policy requirement is 10% on site open space). However, the allowances used in the viability testing and the gross to net developable assumptions ensure this is adequately covered.

3 RESIDENTIAL DEVELOPMENT KEY ASSUMPTIONS

Introduction

3.1 The viability analysis in this report uses a residual development land appraisal, which involves the assessment of the value of the completed development (known as the Gross Development Value or GDV) from which is deducted the development costs (such as build costs as well as professional fees, finance costs and marketing fees) to calculate a residual land value. This is then compared to the benchmark land value (the notional level that willing landowners are theoretically likely to sell land for development at) and if the development value meets or exceeds the benchmark, the development is considered viable. Testing assumptions were discussed in the development industry workshop in June 2015.

3.2 Details of the range of testing assumptions used are set out in Annex 2 and the workshop notes are in Annex 4.

Benchmark Land Values for Residential Development

3.3 The benchmark values reflect the value at which a landowner could reasonably be expected to bring forward their land for development. Benchmark values are not intended to mirror the highest prices for land; instead they are an estimate of the lowest prices that a willing buyer and seller might agree on. Estimates of benchmark values will take into account the impact of policy and will consider current rather than likely future values. This is important as from time to time, land transactions take place on the basis of rising values in the future and purchasers may also take a view on the possibility of negotiating down policy obligations.

3.4 If the residual land value found is higher than the benchmark, development can be reasonably considered as being financially viable at the input values used for the assessment. However, if a resulting residual land value is significantly lower than the established benchmark, then development at the respective input values can be considered to be 'unviable' and that type of development to be less likely to be brought forward.

3.5 Three Dragons and Roger Tym & Partners undertook the 2011 viability study that was used to inform the City Council's CIL Charging Schedule. The viability evidence was examined in July 2013 and found sound. The 2011 viability study established that the residential development land benchmarks were £0.77m-£0.8m per ha for smaller urban/edge of urban development sites.

3.6 Benchmark land values were discussed as part of the Development Industry Workshop in June 2015 (see Annex 4). The discussion included views that the benchmarks were too high (with 2 schemes of 50 dwellings and 250 dwellings cited) and also that the benchmarks were too low[20]. Experience in undertaking viability studies across SW England and elsewhere suggests that there can be wide variance in the returns to landowners. For the purposes of this DPD viability study, the CIL benchmark land values have continued to be used (£0.77m-£0.8m) but the discussion about land value benchmarks has been considered when coming to the final conclusions about the viability of schemes.

[20] This included some separate consultation responses about land values from one of the DPD site promoters.

3.7 The 2011 viability study also included student accommodation, and modelled a case study that was assumed to be in the city centre. A benchmark land value of £1.2m/ha was used for that case study, reflecting the higher values that might be associated with a city centre development site. Since that time the pattern of student accommodation development has included some city centre locations although there has been a continuing pattern of office conversions in the most central locations, with new build student accommodation in the types of locations that might otherwise be used for general housing. In response to this, student accommodation viability is tested against the residential development land benchmarks as well as the higher benchmark for city centre development.

3.8 This study includes housing for older people (unlike the 2011 study) and the viability is tested against the general housing benchmark land values.

House prices

3.9 House prices have been assessed using published data and consultation with the development industry as part of the workshop in June 2015.

3.10 Land registry data for prices paid for new build houses and flats has been analysed by dwelling type and on a value per sq m basis. This has been compared to dwellings currently for sale in Exeter (taking into account a discount from asking to achieved prices). The findings from this analysis were presented to the June 2015 workshop. The discussion did not suggest any amendments to the prices.

3.11 The house prices used in the viability testing are set out in Table 3.1 below (with the 2011 prices for comparison.

Table 3.1 House prices in Exeter

Type	Per dwelling	*2011 prices per dwelling*
5 Bed Detached	£405,000	*£310,000*
4 Bed Detached	£356,250	*£280,000*
3 Bed Semi	£270,750	*£210,000*
3 Bed Terrace	£243,600	*£190,000*
2 Bed Terrace	£213,500	*£170,000*
2 Bed Flat	£158,600	*£140,000*
1 Bed Flat	£140,000	*£125,000*

3.12 Ground rents for flats are assumed to be £250pa, capitalised at 5%.

3.13 Values for sheltered housing were also based on new build land registry price paid data, on a £/sq m basis for the dwellings (excluding the communal areas, which are not assumed to have any direct values to be included in the viability assessment).

Table 3.2 Sheltered Accommodation Prices in Exeter

Type	Per dwelling
1 bed flat	£226,575
2 bed flat	£239,000

3.14 Sheltered housing ground rents have been assumed to be £424 pa for 1 bed flats and £508 pa for 2 bed flats, capitalised at 5%.

3.15 Student accommodation values have been based on consultation. The values used are higher than those presented to the development industry workshop and are based upon the values from recent schemes in the city, as well as support for higher values in the workshop. It should be noted that the values used are sensitive to the actual location and development characteristics. The values for the scheme modelled assume a reasonably well-placed scheme (in relation to the main university site and the city centre amenities), with 43 week tenancies.

Table 3.3 Student Accommodation Development Values in Exeter

Type	Per unit
Studios	£100,000
Cluster flat rooms	£75,000

Build Costs

3.16 Build costs are based on Exeter BCIS median build costs (5 year period) downloaded in May 2015. An uplift of 15% has been applied to the BCIS costs for houses, flats and sheltered housing to allow for external works and this is included in the figures below.

- Houses £1,066/sq m
- Flats (1-2 storeys) £1,206/sq m
- Flats (3-5 storeys) £1,335/sq m
- Sheltered Housing £1,324/sq m

3.17 The build costs are applied to a set of GIA dwelling sizes that are based upon those used in the CIL viability study with amendments to ensure that they comply with the Nationally Described Space Standards (as required by the DDDPD policy DD13).

3.18 Student accommodation has an Exeter BCIS build cost of £1,443/sq m. An uplift of 10% for external works has been applied to the build costs for student accommodation, reflecting the lesser provision required (and in line with the 2011 study), bringing the total to £1,578/sq m.

3.19 An allowance of £40,000 per net ha has been made to cover demolition costs for the case study sites where there are existing buildings. Where there may be more substantial demolition costs it is assumed that these will be covered through an adjustment in the land value for that particular site. Note that existing floorspace will be set against the CIL and affordable housing obligations although as the floorspace quantum on the affected sites is unknown, this has not been quantified in the modelling. As a result, the RD&E Heavitree case study with existing buildings is modelled with higher obligations package than it are may actually pay.

Finance Costs and Professional Fees

3.20 The cost of borrowing has been assumed to be 6%, reflecting the changes in the cost of finance including the Funding for Lending initiative. This rate is net of any inflation allowance (as costs and values are undertaken on current prices).

3.21 Professional fees are assumed to be 10% of construction costs.

Decentralised Energy Network

3.22 An allowance of £2,000 per dwelling has been included within the testing for general housing for the assumed net cost of connecting to a decentralised energy network. This is only applied to sites likely to be within 500m of a decentralised energy network. The figure is based upon Exeter City Council discussions with Eon and developers of other sites in Exeter and the West End of East Devon, and takes into account the savings[21].

3.23 It is assumed that sheltered housing and student accommodation will typically have a centralised heating system. Discussion with Exeter City Council has indicated that there may be net savings from connecting sheltered housing and student accommodation to a decentralised energy network, although these have not been quantified. For the purposes of this testing it has been assumed on a conservative basis that where sheltered housing or student accommodation is developed within 500m of a decentralised energy network, the impact will be cost neutral.

Dwelling Mixes

3.24 In each general housing site tested we have assumed a development density on advice from the Council and a set of dwelling types as set out in the table below.

Table 3.4 dwelling mixes

	25 dph	30 dph	40 dph	50 dph
1 bed flat				40%
2 bed flat				15%
2 bed terrace			20%	30%
3 bed terrace	15%	25%	20%	
3 bed semi	30%	25%	20%	5%
3 bed detached				
4 bed detached	30%	25%	40%	10%
5 bed detached	25%	25%		

Affordable Housing

3.25 The affordable housing required is 35% split 70% social rent and 30% shared ownership, except for student accommodation, where it is not required.

[21] From not installing gas supply, boilers and other carbon abatement measures

4 DPD ALLOCATED SITES

Introduction

4.1 The Development Delivery DPD sets out further residential allocations based on the 2015 SHLAA. These sites will contribute approximately 798 dwellings to the strategic housing requirement identified in the Core Strategy[22] and are listed in table below.

Table 4.1: Site Allocations

Allocation	Dwellings
Exmouth Junction, Prince Charles Road	175
Exwick Middle School, Higher Exwick Hill	50
Land adjacent Exeter St Davids Station	156
Land off Liffey Rise	13
Land south of Apple Lane	58
Mary Arches Car Park	20
Eastern Fields	79
Land opposite 7-10 Glenthorne Road	19
Foxhayes First School, Gloucester Road	13
Land adjacent Exeter Arms Hotel, Rydon Lane	14
DOA & Exeter Mobility Centre, Wonford Road	24
Former Nursery to rear of 2-20 Locarno Road	11
Frickers Yard, Willeys Avenue	11
Bendene Hotel, 15-16 Richmond Road	10
Land at Exeter City Football Club	37
Pyramids Leisure Centre, Heavitree Road	25
Royal Devon & Exeter Hospital (Heavitree Campus)	62
79 Heavitree Road	21
Total	**798**

Sites used for testing

4.2 Of the allocations in Table 4.1, Exeter City Council selected a sample of five schemes to test in this study. These combined the largest allocations and a sample of smaller sites judged to be broadly representative of the range of residential sites:

- Exmouth Junction
- RD&E Heavitree

[22] Core Strategy CP19 allocates three major strategic sites at Monkerton/Hill Barton, Newcourt and South of Alphington, which will contribute significantly towards meeting housing need. The Core Strategy CP3/CP17 also identifies the Grecian Quarter and Water Lane Regeneration Areas as providing housing.

- Apple Lane
- Eastern Fields
- Foxhayes First School

4.3 The viability testing also includes a generic student accommodation scheme and a generic sheltered housing scheme.

4.4 The site characteristics and the approach taken in the viability testing are summarised below.

Exmouth Junction

4.5 This 6.24ha site has been identified for housing and transportation uses. A gross area of 4.9ha is available for housing and Exeter City Council has advised that the site is suitable for 175 dwellings based on a recent scheme proposed. Based on discussions with Exeter City Council it is assumed that the net developable area is 3.7ha (75% of the gross area), with undevelopable areas including steep embankments and a noise bund. The 50dph dwelling mix has been used.

4.6 Part of the wider site has been safeguarded to meet an identified need for bus parking. It is likely that the area set aside for this use may become available for housing (taking the indicative capacity to 239 dwellings) as a planning application for alternative bus parking and depot has been submitted for a location in Matford. However the testing has been done on the existing smaller allocation.

4.7 Development in this location is required to meet a number of site specific costs and the scheme promoter has made available independent estimates produced in February 2015. Some of these costs are typical of general site opening up costs or external works, while others are site specific, including costs for infrastructure to serve the Network Rail maintenance yard. Site specific costs will be factored into negotiations about land value and this aspect is considered later on in the viability assessment. The total costs associated with the site are £2.9m, allocated as follows:

- External works/opening up costs £1m
- Site specific costs £1.9m

4.8 Some of the costs have been included elsewhere in our assumptions (e.g. the 15% on build costs for external works). This leaves a balance of just under £0.5m for additional opening up costs. As noted in Section 2, Planning Practice Guidance advises that brownfield site land value assumptions should clearly reflect the levels of mitigation and investment required to bring sites back into use and this is considered further in Section 5.

RD&E Heavitree

4.9 The SHLAA states that this 2.55 ha site has a net developable area of 1.53 ha (60%) and is suitable for between 46-77 dwellings, with the mid-point of 62 noted in the DPD. Two versions of this site have been tested, using the 40dph mix and the 50 dph mix.

4.10 This site will be within 500m of a decentralised energy network and so the £2,000/dwelling connection costs have been modelled.

4.11 There are existing buildings on the site and an allowance of £40,000 per ha is included to cover demolition costs[23].

Apple Lane

4.12 The SHLAA states that this greenfield 2.25 ha site is suitable for between 41-74 dwellings, with the mid-point of 58 noted in the DPD. It is assumed that the net developable area is 1.45ha (64% of the gross area). The 40dph dwelling mix has been used.

Eastern Fields

4.13 The SHLAA states that this 3.3 ha site has a net developable area of 1.98 ha and is suitable for 59-99 dwellings. The mid-point of 79 dwellings is noted in the DPD and this has been used in the modelling. Therefore the 40 dph mix has been used in the testing.

4.14 The site is accessed via a bridge over the railway line, leading from Exhibition Way to the south. The bridge is to be upgraded and a link road constructed across the site, in order to serve the adjacent new housing developments. The site also has a public right of way and an existing tree belt, and along with the land take for the link road these all contribute to the gross to net developable ratio (60%). The site is in public ownership. The site is contributing the land for the link road but the cost of delivering the road is expected to be met by the s106 contributions already agreed for the adjacent Harringtons and Pinhoe Quarry developments plus any necessary contribution from Devon County Council. Therefore no additional site specific costs are included in the viability assessment.

Foxhayes First School

4.15 The SHLAA states that this 0.5 ha site is suitable for 10-15 dwellings. The modelling uses 13 dwellings (as noted in the DPD) and the 25dph dwelling mix. Although there are existing buildings these will be removed by the current occupier to leave a clear site. The site includes some protected trees and sloping areas but it has been assumed that with a lower density development these can form part of private gardens.

Student accommodation scheme

4.16 The generic student scheme used in this viability testing is loosely based on the current development at Exeter Cricket Club, with 44 studios and 115 cluster flat rooms over 4,500 sq m GIA (including common areas) on 0.4ha site.

4.17 A development of this nature may fall within the requirement to connect to a decentralised energy network, if there is one within 500m.

Sheltered housing scheme

4.18 The generic sheltered scheme used in this viability testing is loosely based on the scheme proposed for Monkerton, with 41 apartments on a site of 0.4 ha (23 two-bed apartments and 18 one-bed apartments)[24]. Total saleable area is 3,060 sq m and it is assumed that 25% of the

[23] This is a generic allowance in the absence of site specific information.

[24] In line with the Retirement Housing Group's 2013 Community Infrastructure Levy and Sheltered Housing/Extra Care Developments viability briefing note's suggested 100-120 dph for sheltered accommodation.

gross floor area is unsaleable[25], taking the gross floor area to 4,080. Site coverage is assumed to be approximately 50%.

4.19 A development of this nature may fall within the requirement to connect to a decentralised energy network, if there is one within 500m.

[25] Based on the Retirement Housing Group's 2013 Community Infrastructure Levy and Sheltered Housing/Extra Care Developments viability briefing note.

5 VIABILITY FINDINGS

Introduction

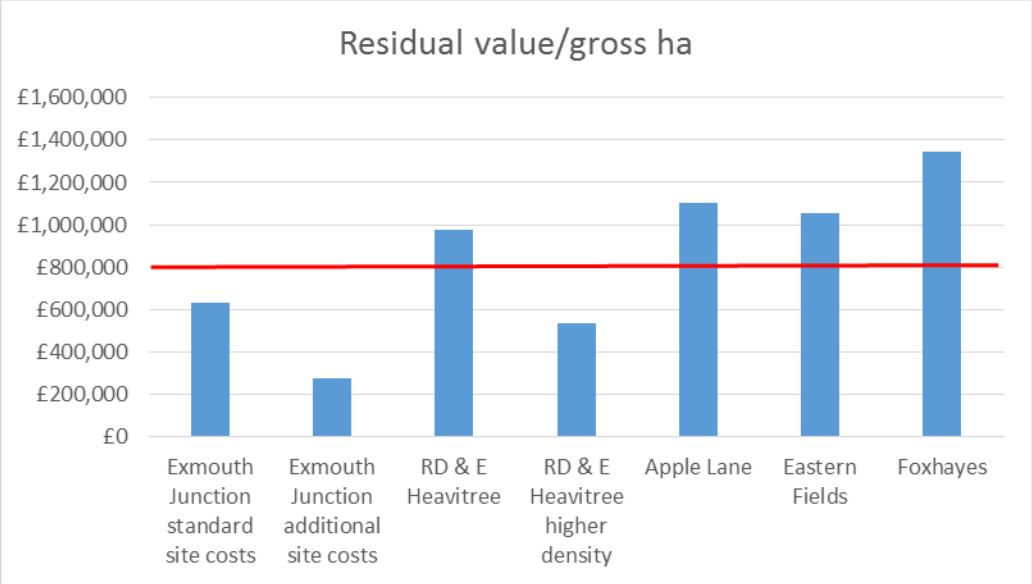
5.1 This section of the report sets out the viability assessments for the 7 case studies. The RD&E Heavitree site has two scenarios, to take into account the option of a higher density development. The Exmouth Junction site also has two scenarios, to take into account some of the costs associated with bringing the site forward for development. All this testing is undertaken at policy compliant affordable housing for general and sheltered accommodation (but not for student accommodation) and includes s106 allowances and CIL as well as the DDDPD costs associated with accessibility, space standards and decentralised energy networks as discussed in sections 2 and 3.

5.2 The residual value of the case studies is calculated using the Three Dragons Toolkit and then compared with the benchmark land values, to estimate whether the residual value meets the benchmark (and is therefore viable) or not. For the Foxhayes site we have assumed that the development will happen over one year. For the other sites (including sheltered housing and student accommodation) we have assumed that development will take place over longer time periods.

Results for the Case Studies

5.3 Figure 5.1 sets out the viability results for the five general housing sites, with the case study residual values per gross hectare set against the £800,000 per gross hectare land value benchmark.

Figure 5.1 General housing case study results



Commentary – General Housing sites

5.4 With the exception of Exmouth Junction the general housing sites all demonstrate viability against the standard modelling assumptions, with some headroom[26]. This includes the RD&E

[26] For the four viable case studies, the 'headroom' is between 18% to 40% of the residual value/ha.

Heavitree which is viable at 40 dph (but not at the higher density scenario). The viability headroom varies between approximately £544,000 per gross ha for Foxhayes to £177,000 per gross ha for the RD&E Heavitree site. This means that all policy costs are met, the benchmark land value is paid to the landowner and there is some additional value in the scheme.

5.5 The different site characteristics have an impact on the viability:

- The RD&E Heavitree site has connection fees for the decentralised energy network and some demolition costs, which reduce the amount available to pay for land.
- Apple Lane and Eastern Fields have similar characteristics and therefore similar viability.
- Foxhayes is a lower density development (25 dph). However despite these characteristics the 100% net developable area means that the site is more viable than most of the other case study sites.

5.6 Exmouth Junction is not viable against the benchmark land value used. However using the standard site costs the development will produce £630,000 per gross ha[27], which may be considered a suitable return for the landowner, given the known costs associated with the site (and the advice from Planning Practice Guidance about brownfield land values[28]). Discussion about the site in Section 4 notes that some of the site is undevelopable for site specific reasons (rather than planning policy) and if the undevelopable area is discounted, the residual value per *net* ha is £836,000, which is above the benchmark (see figure 5.2 below).

5.7 The alternative modelling for Exmouth junction includes additional site costs of £1.9m (relating to site specific costs and Network Rail infrastructure). Once these are included the residual value per gross ha falls to £277,000 per gross ha (or £367,000 per net ha). Both of these values are below the benchmark land value of £800,000 per ha. Given that these site costs will have to be met in order for the site to be developed it is possible that there will need to be flexibility about development densities or the land values, and some negotiation on the affordable housing or other planning obligations in order for housing development to proceed. Alternatively the site may come forward later in the plan period if values rise.

Figure 5.2 Exmouth Junction Residual Values

5.8 The alternative modelling for the RD&E site has a higher density scheme, to the maximum dwellings anticipated in the SHLAA. This density would include flats in the mix (as well as more

[27] For the 4.9ha gross site area

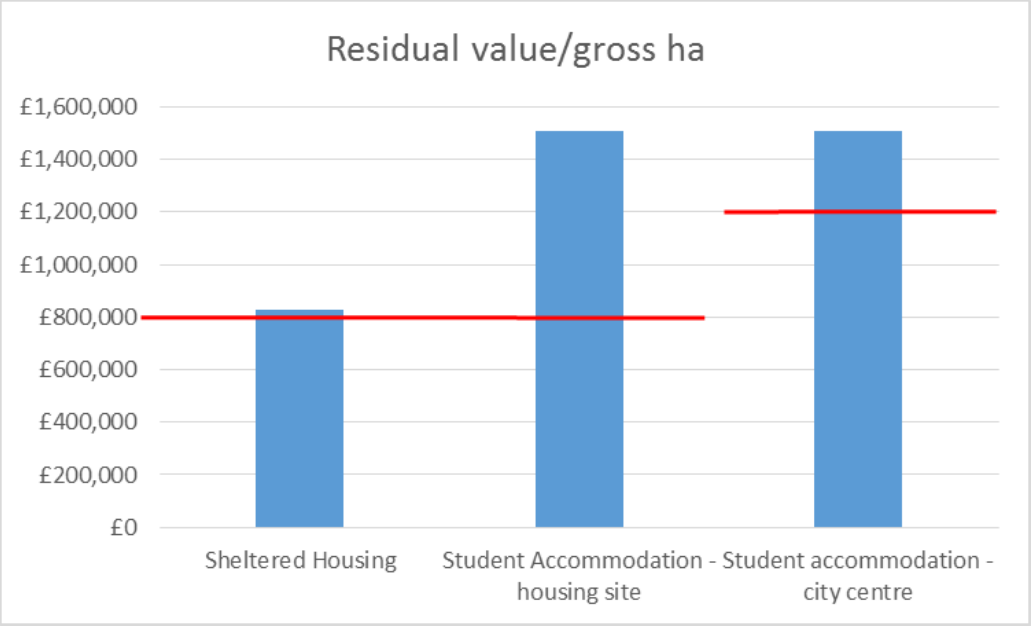
[28] Planning Practice Guidance Paragraph: 025 Reference ID: 10-025-20140306

smaller houses), with associated higher build costs. The 50 dph mix provides 13% less market floor area than the 40 dph mix and this reduces the amount available to pay for the land. While this alternative scenario produces a positive residual of over £0.5m per gross ha, this is below the benchmark land value[29]. Based on these findings it is likely that development will need to maximise the market floorspace and the scheme value.

5.9 As explained earlier (Section 3) some views were expressed at the development industry workshop that that the benchmark land values may be higher than the £800,000 per gross ha used here. The graph in Figure 5.1 illustrates how relatively small shifts in the assumed benchmark may have an impact on viability for some sites whilst leaving others unaffected. So, for example, if the benchmark was 25% above the benchmark (£1m per ha) then the RD&E would also become unviable.

5.10 Figure 5.2 below illustrates the viability of the sheltered housing scheme and the student accommodation. Student accommodation is assessed against the standard £800,000/ha residential benchmark as well as a higher £1.2m/ha benchmark for city centre sites.

Figure 5.3 Sheltered Housing and Student Accommodation



Commentary – Sheltered Accommodation and Student Housing

5.11 Both the sheltered housing and the student housing schemes are viable although there is relatively little viability headroom for the sheltered scheme. The student accommodation scheme is viable against both the £800,000/ha housing site and the £1.2m/ha city centre site land benchmark, although the value of student accommodation schemes is sensitive to specific locations in the city, and more so than sheltered or general housing.

[29] Note that it is likely that the CIL and affordable housing that the RD&E site is expected to deliver will be less than the amount modelled because the existing floorspace will be set against the CIL liability (CIL regulations) and the affordable housing requirement (Vacant Buildings Credit). This will increase the amount available to pay for the land although in the absence of floorspace information it cannot be quantified – see discussion in Section 3.

Conclusions

5.12 Based on the case studies tested, most of the development set out in the DDDPD is viable. This takes into account the costs of complying with the Council's development policies as well as CIL and residual s106, and the DCLG/Council dwelling space standards.

5.13 Within this, sites with higher development costs (such as Exmouth Junction) may not be viable with policy compliant development. While costs associated with bringing brownfield land back into use may be considered to come off land values, there will be a level at which the site owner may not bring forward the site. In these circumstances there may be negotiation about planning obligations or the site may not come forward until values rise.

5.14 Other issues include:

- Higher density schemes may struggle compared to schemes with fewer, larger dwellings.
- There is relatively little viability headroom for sheltered housing compared to the other schemes tested here, although the modelling suggests that policy compliant sheltered accommodation is possible.

6 SENSITIVITY TESTING

Introduction

6.1 Sensitivity testing has been undertaken to respond to the workshop discussion about build costs and developer return (see Annex 4).

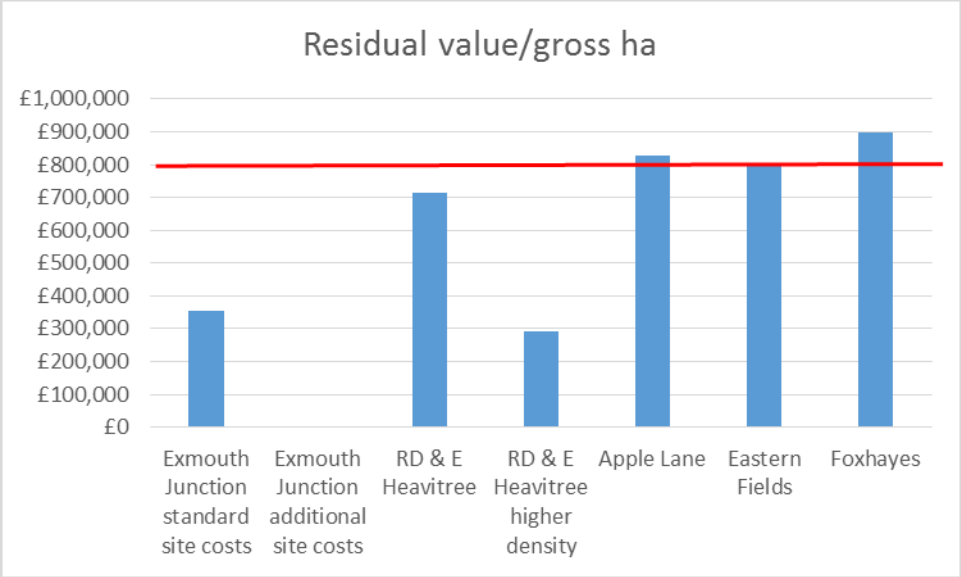
- **Build costs** – the workshop discussion suggested that build costs had been rising and that BCIS might not be up to date in this respect, even though the most recent data from BCIS has been used in the standard viability assessment. No alternative build cost evidence was suggested and instead it was agreed to undertake a sensitivity test at 10% over the BCIS rates.
- **Developer return** – the workshop discussion suggested that developers may be requiring higher returns than the standard 20%. It was agreed to undertake a sensitivity test at 22% developer return for market housing.

6.2 The higher build costs and higher developer return are combined into one sensitivity test. This tests include all the other assumptions used in the standard assessment, including policy affordable housing and compliance with the DPD accessibility, space standards and decentralised energy policies.

Sensitivity Test Results for the Case Studies

6.3 Figure 6.1 sets out the viability results for the five general housing sites, with the case study residual values per gross hectare set against the £800,000 per gross hectare land value benchmark.

Figure 6.1 General housing case study sensitivity results



6.4 The general housing sites show less viability when the higher build costs and developer return is applied. Apple Lane, Eastern Fields and Foxhayes remain viable (or marginally viable). However, the RD&E Heavitree is no longer viable, although even this site still produces a

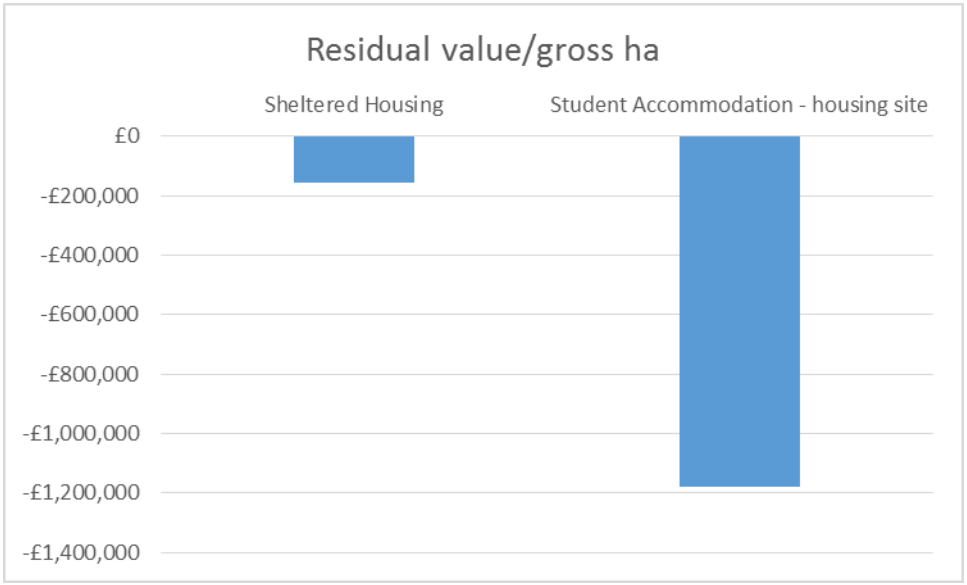
residual value of over £700,000 per hectare. Exmouth junction is not viable with these higher build costs and developer return.

6.5 For Apple Lane, Eastern Fields and Foxhayes the higher cost scenario leaves little or no viability headroom.

6.6 The alternative modelling for Exmouth junction includes additional site costs of £1.9m. If these additional costs are included then the scheme produces no residual value to pay for land at all.

6.7 Figure 6.2 sets out the viability results for the sheltered housing and student accommodation schemes with the higher build costs and higher developer return.

Figure 6.2 Sheltered Housing and Student Accommodation sensitivity results



6.8 Both the sheltered housing and student accommodation schemes produce a negative residual value with the higher build costs and higher developer return, even before any consideration for land. Neither type of scheme is likely to proceed under this scenario. However the current local interest in both these types of development suggest that this scenario does not reflect development conditions in Exeter and does not support 22% developer return or 10% increased build costs across the Exeter residential market.

Conclusions

6.9 Using the sensitivity test with higher build costs and developer returns, some of the general housing case studies are viable. However some sites with additional development or land costs will not be viable unless there is flexibility about the price paid for land; and some sites are unlikely to proceed at all. The sheltered housing and student accommodation schemes are affected by the higher cost basis and neither of these types of development are likely to proceed.

6.10 The higher cost base viability assessment responds to discussion at the June 2015 workshop, and has been undertaken on a 'what if?' basis. No specific cost evidence has been offered in support.

ANNEX 1

Core Strategy and Development Delivery DPD Policy Review

Policy	Subject	Residential Viability Implications
	Core Strategy	
CP1	Scale and location of growth	None
CP2	Employment allocations	None
CP3	Housing numbers	None
CP4	Residential development characteristics – including the need to achieve the highest appropriate density of development.	Considered in setting the sample case study characteristics.
CP5	Meeting housing need: • Developments of 10 or more dwellings should include a mix of housing • Specialist housing should be provided as part of mixed communities • All housing to meet Lifetime Homes • Purpose built student accommodation is required	Housing mix considered in setting the sample case study characteristics. Retirement housing and student accommodation included in case studies. Accessibility standards included in general housing costs.
CP6	Gypsy and traveler sites	None
CP7	Affordable housing - for 3 or more dwellings 35% affordable housing with 70% social rented:30% intermediate, subject to viability. Affordable rent may substitute for social rent if viability requires.	Included in viability testing.
CP8	Retail	None
CP9	Transport	None
CP10	Community facilities	None
CP11	Environment	None

Policy	Subject	Residential Viability Implications
CP12	Flood risk including SUDS	Part of standard development practice.
CP13	Decentralised energy networks for 10 or more dwellings subject to viability.	Costs included in viability assessments.
CP14	10% over building regulations for CO^2 emissions.	Superseded by national policy. Not included.
CP15	Sustainable design and construction	Tested in line with policy.
CP16	Green infrastructure: • Green space requirements for strategic sites. • Protection of green spaces. • Contributions from development effecting the Exe Estuary European site required for site management.	Strategic sites not included in testing. See DD31 below for European sites.
CP17	Development characteristics	None
CP18	Provision of infrastructure	Infrastructure delivery through CIL/S106 and other funding sources. Site specific infrastructure requirements also included in testing where known.
CP19	Strategic allocations: • Newcourt • Monkerton/Hill Barton • Alphington	Not included in testing.

Policy	Subject	Residential Viability Implications
	Development Delivery DPD	
DD1	Sustainable development principles	None
DD2	Employment allocation	None
DD3	Loss of employment land	None
DD4	Provision of local services in employment areas	None
DD5	Access to employment	None
DD6	Telecoms equipment	None
DD7	18 housing allocation sites identified	Sample of 5 of these sites used in this viability testing as advised by Exeter City Council.
DD8	Housing on unallocated sites	None
DD9	Accessibility – all housing to category 2 accessibility; 5% of affordable housing category 3 accessibility.	Costs included in viability assessments.
DD10	Loss of residential accommodation	None
DD11	Housing conversions and sub-divisions	None
DD12	Student accommodation requirement	Generic scheme included in viability testing.
DD13	Residential amenity including adoption of the National Space Standard	Space standard included in viability testing.
DD14	Development on the bus station	None
DD15	Protection of retail centres	None
DD16	Tourism and culture	None
DD17	Hotel development	None

Policy	Subject	Residential Viability Implications
DD18	Transport infrastructure	None
DD19	Safeguarding railway land	None (although one of the sample sites is on former railway land).
DD20	Sustainable transport	Part of standard development good practice. Allowance for s106 includes small scale site specific transport requirements.
DD21	Parking standards	None
DD22	Protection of existing greenspace and greenspace/play requirements for new development	Appropriate net to gross developable used in viability assessments (as set out in SHLAA). Allowance for s106 includes local children's play.
DD23	Protection of community facilities and provision of new facilities by large scale development	Sites tested not required to provide community facilities.
DD24	Assets of community value	None
DD25	Design principles	Part of standard development good practice – no viability implications.
DD26	Designing out crime	Part of standard development good practice – no viability implications. Specific requirements of new Part Q Building Regulations included in viability testing.

Policy	Subject	Residential Viability Implications
DD27	Shop fronts	None
DD28	Heritage Assets	None
DD29	Landscape Setting	None
DD30	Protection/delivery of green infrastructure.	No specific implications but see DD22.
DD31	Protection of International Sites	Part of standard development good practice – no viability implications. Contribution towards Exe Estuary mitigation is through CIL.
DD32	Connection to local energy networks for 10 or more dwellings in *Monkerton and Hill Barton; City Centre, Heavitree Road and Wonford; Marsh Barton, Matford, and land South of Alphington*	Connection costs applied to appropriate case studies.
DD33	Flood risk mitigation	Part of standard development good practice – no viability implications
DD34	Minimisation of pollution	Part of standard development good practice – no viability implications

ANNEX 2

Testing assumptions

Exeter DPD

Testing Assumptions

The following were tested:

	Name	Gross Area (ha)	Net Area (ha	No of Units	DPH
1	Exmouth Junction	4.9	3.7	175	50
2	RD & E Heavitree v1	2.55	1.53	62	40
	RD & E Heavitree v2	2.55	1.53	77	50
3	Apple Lane	2.25	1.45	58	40
4	Eastern Fields	3.3	1.98	79	40
5	Foxhayes First School	0.5	0.5	13	25
6	Sheltered Scheme	0.6	0.5	54	-
7	Student Accommodation	0.4	-	159	-

Dwelling sizes

The following were used.

House Type	Affordable (sq m)	Market (sq m)
1 bed flat	50 (55 inc common areas allowance)	50 (55 inc common areas allowance)
2 bed flat	70 (77 inc common areas allowance Note 1)	61 (67 inc common areas allowance Note 1)
2 bed terrace	71	70
3 bed terrace	96	84
4 bed terrace	109	97
3 bed semi	96	95
4 bed semi	109	97
3 bed detached	101	105
4 bed detached	114	125
5 bed detached	125	150

Note 1: An additional 10% floor area is allowed for the 1 and 2 bed flats to ensure that the construction costs of the common areas (stairs, circulation space etc.) are allowed for.

Size in sq m		Affordable	Market
Sheltered	1 bed flat	57 (71 inc common areas)	57 (71 inc common areas
	2 bed flat	73 (91 inc common areas)	73 (91 inc common areas)

An additional 25% floor area for the Sheltered flats was allowed for to include common areas etc.

The student accommodation is based on a current scheme of 159 rooms with a GIA of 4,500 sq m.

Dwelling Mix

The following range of development mixes has been used:

	25 dph	30 dph	40 dph	50 dph
1 bed flat				40%
2 bed flat				15%
2 bed terrace			20%	30%
3 bed terrace	15%	25%	20%	
3 bed semi	30%	25%	20%	5%
4 bed detached	30%	25%	40%	10%
5 bed detached	25%	25%		
Total	***100%***	***100%***	***100%***	***100%***

Selling Prices

	Selling Price
1 bed flat	£140,000
2 bed flat	£158,600
2 bed terrace house	£213,500
3 bed terrace house	£243,600
3 bed semi-detached house	£270,750
4 bed detached house	£356,250
5 bed detached house	£405,000

Sheltered	Selling Price
1 bed flat	£226,575
2 bed flat	£239,000

Student	Per unit
Studios	£100,000
Cluster flat rooms	£75,000

Affordable Housing

35% Affordable Housing has been tested on all sites except student accommodation, where it is not required.
Affordable housing is split 70% social rent: 30% shared ownership, with a 40% share sold.
Social Rents provided by Exeter City Council are listed below:

1 bed	£72.01
2 bed	£84.24
3 bed	£92.43
4 bed	£104.82
5 bed	£118.59

Affordable Housing costs

Affordable rent	
Management and maintenance	£1,000 per annum
Void/ bad debts	3% gross rent
Repairs reserve	£500 per annum
Capitalisation	5.5% of net rent
Shared Ownership	
Rental factor	2.5% of share
Capitalisation	5.5% of net rent

Build Costs (including 15% uplift for external works)

Build costs are based on BCIS Build Costs downloaded in May 2015. An uplift of 15% has been applied to the BCIS costs to allow for external works for general and sheltered housing. 10% has been applied to student accommodation.

- Houses £1,066/sq m
- Flats (1-2 storeys) £1,206/sq m
- Flats (3-5 storeys) £1,335/sq m
- Sheltered Housing £1,324/sq m
- Student Accommodation £1,587/sqm

Other Costs

- An allowance of £1,000 per general and sheltered housing dwelling has been made to cover the cost of meeting the CfSH Level 4 Energy requirements to be included in forthcoming Building Regulation updates.
- An allowance of £320 per general and sheltered housing dwelling to cover the Part Q Security requirements of the Building Regulations.
- An allowance of £513 per general and sheltered housing dwelling has been made to cover the cost of Category 2 access to all dwellings.
- An allowance of £1,660 per general and sheltered housing dwelling has been made to cover the cost Category 3 access to 5% of affordable dwellings.

Other Development Costs

- Professional Fees 10% of build costs
- Finance (market and affordable) 6% of total costs
- Marketing 3% of revenue (market units)
- Developer return 20% of revenue (market units)
- Contractor return 6% of affordable build costs
- Agents Fees (on acquisition) 1.5% of land purchase price
- Legal Fees (on acquisition) 0.5% of land purchase price
- Stamp Duty Land Tax Applied to all schemes at the current rates

Discounted Cash Flow

- Annual Debit Interest Rate 6% (as per Finance Costs)
- Annual Credit Interest Rate 2%
- Annual Discount Rate (PV/ NPV) 3.5%

Exceptional Development Costs

- Exmouth Junction
    - v1 – opening up costs of £476,617 have been allowed
    - V2 – in addition to v1 opening up costs, site specific costs of £1,884,569 and Network Rail costs of £79,723 have been allowed
- RD & E Heavitree
    - £40,000 per net ha has been allowed for demolition
    - £2,000 per dwg has been allowed for connection to a nearby energy network

Planning Obligations

An allowance of £1,300 per dwelling has been made for residual s106 payments for general and sheltered housing. A single allowance of £20,000 has been made for s106 costs for student accommodation to cover travel planning and management agreements.

Sheltered Housing

The testing assumptions set out above apply to the Sheltered case study, with the following exceptions:-

- The development mix is split 45% 1 bed apartments: 55% 2 bed apartments.
- An allowance of £100,000 is made for void costs.
- Marketing costs – allow 6%
- The first legal completion occurs in year 2, with 40% of the completions in year 2, 40% in year 3 and 20% in year 4.
- No allowance has been made for complying with Category 2 and 3 space standards as it is assumed the scheme will be compliant.
- Ground rents of £424 pa for 1 bed and £508 pa for 2 bed flats have been capitalised at 5%.

Student Accommodation

- 44 studios and 115 cluster flat rooms
- 4,500 GIA over 2 and 3 storeys on a 0.4ha site
- 18 month build period
- 5.8% purchaser costs
- 3% sales and letting costs
- £20,000 allowance for s106 (based on advice from Exeter City Council)
- 10% professional fees
- 6% interest
- 20% developer return
- 2% agent/legal cost

Delivery rates

- Exmouth Junction – Delivery over 4 years with year 1: 25, year 2, 3 and 4: 50 pa
- RD& E Heavitree v1 – Delivery over 2 years with year 1: 17, year 2: 45
- RD& E Heavitree v2 – Delivery over 2 years with year 1: 31, year 2: 46
- Apple Lane – Delivery over 2 years with year 1: 17, year 2: 41
- Foxhayes – All delivery in year 1: 13
- Eastern Fields – Delivery over 2 years with year 1: 34, year 2: 45
- Old persons sheltered – Delivery over 2 years with year 1: 0, year 2: 22, year 3: 21, year 4: 11
- Student accommodation – Delivery over 18 months , year 1: 0, year 2 159

ANNEX 3

Testing results

Viability findings based on standard modelling assumptions											
Site	Dwellings	Dwellings per net ha	Market sq m	Social rent sq m	Shared ownership sq m	Gross ha	Site costs	Residual value	Residual value/ha	Land value benchmark	Surplus/deficit per ha
Exmouth Junction standard site costs	175	47	7,996	3,046	1,306	4.9	£0.5m opening up. £40k/net ha demolition.	£3,094,000	£631,000	£800,000	-£169,000
Exmouth Junction additional site costs	175	47	7,996	3,046	1,306	4.9	As above plus £1.9m site costs	£1,359,000	£277,000	£800,000	-£523,000
RD & E Heavitree	62	40	4,022	1,492	639	2.55	£40k/net ha demolition. £2k/dwg energy networks.	£2,492,000	£977,000	£800,000	£177,000
RD & E Heavitree higher density	77	50	4,022	1,492	639	2.55	£40k/net ha demolition. £2k/dwg energy networks.	£1,366,000	£536,000	£800,000	-£264,000
Apple Lane	58	40	3,763	1,395	598	2.25	-	£2,487,000	£1,105,000	£800,000	£305,000
Eastern Fields	79	40	5,125	1,901	815	3.30	-	£3,479,000	£1,054,000	£800,000	£254,000
Foxhayes	13	26	981	346	148	0.50	£40k/net ha demolition.	£672,000	£1,344,000	£800,000	£544,000
Sheltered Housing	54	110	2,882	1,086	466	0.49	-	£503,000	£838,000	£800,000	£38,000
Student Accommodation - housing site	159	398	4,500	-	-	0.60	-	£601,000	£1,503,000	£800,000	£703,000
Student accommodation - city centre	159	398	4,500	-	-	0.60	-	£601,000	£1,503,000	£1,200,000	£303,000

Viability findings based on higher costs sensitivity tests											
Site	Dwellings	Dwellings per net ha	Market sq m	Social rent sq m	Shared ownership sq m	Gross ha	Site costs	Residual value	Residual value/ha	Land value benchmark	Surplus/deficit per ha
Exmouth Junction standard site costs	175	47	7,996	3,046	1,306	4.97	£0.5m opening up. £40k/net ha demolition.	£1,741,000	£355,000	£800,000	-£445,000
Exmouth Junction additional site costs	175	47	7,996	3,046	1,306	4.9	As above plus £1.9m site costs	£6,000	£1,000	£800,000	-£799,000
RD & E Heavitree	62	40	4,022	1,492	639	2.55	£40k/net ha demolition. £2k/dwg energy networks.	£1,824,000	£715,000	£800,000	-£85,000
RD & E Heavitree higher density	77	50	4,022	1,492	639	2.55	£40k/net ha demolition. £2k/dwg energy networks.	£743,000	£292,000	£800,000	-£508,000
Apple Lane	58	40	3,763	1,395	598	2.25	-	£1,861,000	£827,000	£800,000	£27,000
Eastern Fields	79	40	5,125	1,901	815	3.30	-	£2,630,000	£797,000	£800,000	-£3,000
Foxhayes	13	26	981	346	148	0.50	£40k/net ha demolition.	£448,000	£896,000	£800,000	£96,000
Sheltered Housing	54	110	2,882	1,086	466	0.49	-	-£94,000	-£156,000	£800,000	-£956,000
Student Accommodation - housing site	159	398	4,500	-	-	0.60	-	-£475,000	-£1,186,000	£800,000	-£1,986,000
Student accommodation - city centre	159	398	4,500	-	-	0.60	-	-£475,000	-£1,186,000	£1,200,000	-£2,386,000

ANNEX 4

Workshop Notes

Exeter City Council
Development Delivery DPD – Viability testing
Development industry workshop – 16th June, Civic Centre
Notes of the meeting
Attending

- Herridge Property Consulting
- Waddeton Park Ltd
- JLL
- LDA
- East Devon District Council
- Blue Cedar Homes / Eagle One
- DCH
- Jill Day (JD) Exeter City Council
- Fergus Pate (FP) Exeter City Council
- Dominic Houston (DH) Three Dragons
- Lin Cousins (LC) Three Dragons

Introduction
Jill Day introduced the workshop and welcomed those attending. JD explained that the Development Delivery DPD (DDDPD) will sit alongside the core strategy (which established the requirement for 12,000 homes to 2026). The DPD allocates land for development and sets out development management policies that will affect new development. Together with the Core Strategy, they will form the council's Local Plan.

JD noted that the publication version of the DDDPD is now a public document – http://committees.exeter.gov.uk/documents/s46700/DEVELOPMENT%20DELIVERY%20DPD%20-%20JUNE%202015%20-%20CLEAN%20-%20EXEC.pdf

There will be a statutory publicity period to begin in July and run for 8 weeks.

Dominic Houston explained that Three Dragons will be undertaking viability testing in support of the DPD. Notes of the workshop will be circulated for further comment and the final version of the notes included in 3D report. The notes will include a list of the organisations represented at the workshop but not names of the individuals.

DH set out approach to testing which will include testing of a notional scheme and a selection of sites in the DDDPD which are yet to receive planning permission. Principles for testing to follow the National Planning Policy Framework and Planning Practice Guidance. The testing will use a residual value (RV) approach, comparing out-turn RV with a land value benchmark. Workshop attendees acknowledged this approach.

Land value benchmark
DH set out that the land value benchmarks (as the lowest competitive return rather than necessarily the best price) to be used are as the previous CIL study, as follows:

- £770,000-£800,000/gross ha as benchmark (£310,000-£325,000/gross acre)

Comments:

- View expressed that the benchmark values are high. They represent about £50k per plot (with CIL and s106) which is more than can be paid in Exeter. Reasons given for this include ECC's affordable housing (AH) policy and continued use of social rent (which generates a significantly lower revenue to a scheme than affordable rent). Also that house builders were using stage payments with lags between land price being agreed and sale completed;
- Examples given of recent sale around Exeter of i) c50 unit scheme – 25% AH and s106 of £11k per unit giving £45k per plot ii) 250 unit scheme at £35k per plot;
- Build out rates said to be c 35 units per outlet – and limited number of outlets on the big schemes (exceptions are Cranbrook and Newcourt which are being built out at a much faster pace);
- There was an alternative view that benchmarks are low, and evidence was requested to illustrate this point;
- General view that residential land values do not relate to a % over industrial values – there is no simple relationship between the two in the Exeter market.

Residential testing

DH set out the schemes to be tested (see below).

Residential Testing

- 5 general housing case studies (from SHLAA)
  - Foxhayes School
  - Exmouth Junction
  - Apple Lane
  - Eastern Fields
  - RD&E Gladstone
- Older persons housing
- Student housing

Comments:

- Sample broadly acceptable;
- However, question was raised about role of specialist extra care housing and whether being modelled. DH explained that 3D will test a C3 scheme but not a specialist C2 scheme. This was welcomed due to affordable housing policy applying to C3 schemes. In terms of the Local Plan JD explained that whilst the Core Strategy and the DDDPD both encourage older persons housing, the DDDPD does not allocate sites specifically for older persons housing.

Dwelling characteristics

Size or dwellings presented by DH as below , explaining that this was consistent with the Local Plan and recent government guidance. JD noted that ECC will adopt the national space standards.

House type description	Affordable sq ft	Market sq ft
1 Bed Flat	538	538
2 Bed Flat	753	656
2 Bed Terrace	764	753
3 Bed Terrace	1,033	904
4 bed terrace/ semi	1,173	1,044
3 Bed Semi	1,033	1,022
3 Bed Detached	1,087	1,130
4 Bed Detached	1,227	1,345
5 Bed Detached	1,345	1,614

Comments

- Flats for AH to be 2b 4p rather than 2b 3p and 1b 2p (post meeting *note: dwelling sizes include 2b 4p and 1b 2p flats as set out in Technical housing standards – nationally described space standard 2015*)
- Sizes to be circulated as sq m also (see below).

Type	Affordable sq m	Market sq m
1 bed flat	50	50
2 bed flat	70	61
2 bed terrace	71	70
3 bed terrace	96	84
4 bed terrace	109	97
3 bed semi	96	95
3 bed detached	101	105
4 bed detached	114	125
5 bed detached	125	150

Dwelling mixes for testing presented by DH as follows:

	25 dph	30 dph	40 dph	50 dph
1 bed flat				
2 bed flat				
2 bed terrace			20%	30%
3 bed terrace	15%	25%	20%	40%
4 bed terrace				
3 bed semi	30%	25%	20%	30%
3 bed detached				
4 bed detached	30%	25%	40%	
5 bed detached	25%	25%		

Comments:

- At 50 dph – will need some FoG and apartments. 15% apartments would be reasonable with rest of the scheme having a broader mix of dwelling types than shown (including larger detached units). ECC agreed to review recent permissions to check this and include a revised mix in the circulated meeting notes;
- Similar comments about the other mixes but recognising that these are for testing purposes and some simplification is acceptable;
- Need for AH of different dwelling types will vary by scheme/at different times so modelling on basis a % of all the unit types is reasonable.

Post meeting note – dwelling mix for 50dph scheme informed by recent applications is set out below:

1 bed	40%
2 bed flat	15%
2 bed terrace	30%
3 bed semi	5%
4 bed detached	10%

Market values

Following presented by DH. He explained the source of information used (Land Registry, Hometrack) and that the data related to Exeter and newbuild only. Data was for price paid.

	Detached			Semi-detached		Terrace			Flats	
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	2 Bed	1 Bed
Per dwelling	£405,000	£356,250	£320,250	£276,450	£270,750	£257,050	£243,600	£213,500	£158,600	£140,000
Per sq m	£2,700	£2,850	£3,050	£2,850	£2,850	£2,650	£2,900	£3,050	£2,600	£2,800
									Ground rent	£250pa @ 5%

DH noted that the data cannot take into account any incentives that may be offered by house builder. Workshop commented that this may not be as significant as in the past.

Comments:

- Values look about right – considering the £s per sq m. Perhaps smaller terrace and larger detached look a bit high but it is assumed that the evidence underpinning the values is robust and therefore can be relied on as being reasonable;
- Ground rent - £250 pa is acceptable as an average for testing.

Development costs

DH presented the following development costs. He explained that build costs are from BCIS for adjusted for Exeter (5 year median values):

Type	Cost	
Flats (1-2 storeys)	£112	sq ft includes 15% for external works
Flats (3-5 storeys)	£124	sq ft includes 15% for external works
Houses	£99	sq ft includes 15% for external works
Professional fees	8-12%	of build costs
Finance	6%	of development costs
Marketing fees	3%	of GDV
Developer return	20%	of GDV
Contractor return	6%	of build costs for affordable housing
Residual s106/278	£1,300 tbc	Per dwelling for children's play/informal greenspace/minor local transport
Agents and legal	1.75%	of GDV
Zero Carbon	£1,000	per dwelling (CoSH 4 Energy)
Part Q Security	£320	per dwelling
CIL	£90	sq m (£45/sq m for student accommodation)
Site specific costs	?	modelled if available

DH explained that specific costs for the individual sites being tested (as shown above) are being sought from scheme promoters.

Comments:

- Costs are too low as the industry is struggling with shortage of materials and labour supply – BCIS data is lagged and has not reflected these additional costs. 3D asked for evidence of current costs;
- Developer return – some comment that 20% is below what is being sought by developers.
- 3D agreed to sensitivity test at 10% higher build costs and 22% developer return as a combined 'higher cost' test. ECC to review any in-house evidence on these factors as a check on sensitivity tests.

DH explained the viability testing is designed to include all policy costs in the DPD. He noted that that the local energy networks (DD32) costs are in addition to the CfSH Level 4 costs included above. This is a very conservative approach which implies some double counting but this is difficult to disentangle and therefore both costs will be included in the testing.

Affordable housing

JD clarified that ECC's policy is to seek 35% of units as affordable in major housing schemes.

DH explained that the AH to be tested at 35% made up as 70% social rent and 30% shared ownership. Rents and other modelling assumptions proposed as follows

	Rent per week
1 bed	£72.01
2 bed	£84.24
3 bed	£92.43
4 bed	£104.82
5 bed	£118.59

For rental properties.	
Management and maintenance	£1,000
Voids/bad debts	3.00%
Repairs reserve	£500
Capitalisation	5.75%
For shared ownership	
Share size	40%
Rental charge	2.75%
Capitalisation	5.75%

Comment:

- Factors put forward for modelling purposes are a reasonable average for this type of testing.
- Capitalisation rate should be 5.5% and rental charge 2.5%.

3D explained that will calculate the 'value' of affordable housing to a scheme on the basis of capitalised net rent; acknowledging that this is a very conservative approach but is what can be 'guaranteed' as payment from housing associations.

Other residential development types

DH explained that 3D will be testing a sheltered housing scheme and student accommodation using following specific assumptions. DH explained that it is anticipated that the impact of student or older persons housing connection to a decentralised energy network is anticipated to be cost neutral for the purposes of the modelling.

Student housing

Standard cluster flat	£65k/room
Studio	£80k/studio

- Direct let model
- Build cost £144/sq ft (BCIS plus 10% external works)
- 44 studios and 115 cluster flat rooms
- 4,500 sq m GIA on 0.4ha site

Older person housing – C3 development

Value/saleable area		
1 bed flat 57 sqm	£372 psf	+ Ground rent £424pa @ 5%
2 bed flat 73 sq m	£307 psf	+ Ground rent £508pa @ 5%

- 110 dph (RHG)
- Build cost £123/sq ft (BCIS plus 15% external works)
- 25% non-saleable space (RHG)
- Marketing 6% of GDV (RHG)

Comments:

- Student accommodation – recent development discussed of a 61 bedroom units at £100k per unit ('Library Lofts'). This is higher than 3D is proposing to use and 3D will review this additional evidence.
- Older person housing - No specific comments on the above assumptions. But noted that there are other models of provision with a different mix of dwelling types and provision. 3D could model this but will require an example of this scheme type to provide viability evidence, including costs and values.
- No other residential development types put forward for testing.

Other

As the workshop concluded, attendees were asked to consider whether any other policies in the DDDPD might have viability impacts.