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# Harlow and Gilston Garden Town

## Strategic Viability Assessment

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April 2019



# ARUP

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# 1. Introduction

## Scope

- 1.1 Harlow Council (HC), East Hertfordshire District Council (EHDC), Epping Forest District Council (EFDC), Hertfordshire County Council (HCC) and Essex County Council (ECC) ('the Councils') are working together, to bring forward the Harlow and Gilston Garden Town. The Councils are delivering this growth in partnership with other stakeholders including the Hertfordshire LEP (HLEP), South East LEP and site promoters.
- 1.2 This Viability Assessment was been commissioned to assess the deliverability of the key sites that make up Harlow and Gilston Garden Town, in the summer of 2018 in parallel to the updating of the Garden Town Infrastructure Delivery Plan (IDP). The Garden Town forms part of the London – Stansted – Cambridge Corridor (LSCC), which is one of the fastest growing economic regions in England.
- 1.3 Approximately 16,000 new homes are planned for the Garden Town within the Local Plan period 2011-2033 with over 7,000 beyond the plan-period. The sites include both the Harlow urban area and four new Garden Communities:
  - a. **East of Harlow** located in Harlow and Epping Forest. Total estimated number of dwellings – 3,350.
  - b. **Latton Priory** located in Epping Forest. Total estimated number of dwellings – 1,050.
  - c. **Water Lane Area** located in Epping Forest. Total estimated number of dwellings – 2,500.
  - d. **Gilston Area** located in East Hertfordshire. Total estimated number of dwellings – 10,000 (of which at least 7,050 will be delivered in the plan-period).
- 1.4 HDH Planning & Development Ltd and Arup have been appointed to provide a high-level viability assessment for each of the four new Garden Communities in order to determine the level of developer contributions that may be sought, whilst allowing delivery of the sites to remain viable.
- 1.5 This assessment sets out the methodology and the key assumptions adopted. This will allow the Councils to continue to engage with stakeholders, to ensure that the Garden Town is deliverable.
- 1.6 This Viability Assessment has been informed by a consultation process with landowners, agents, and developers. A series of consultation meetings were held during August and September 2018 with representatives of the main developers, development site landowners, their agents and housing providers. The meetings were used to set out the methodology, to test the assumptions, and to clarify the contextual background. A further round of consultation meetings were held in mid-February 2019. Whilst the purpose of these was principally to

discuss the strategic infrastructure and mitigation costs (as established by ARUP), further comments were made with regard to viability.

- 1.7 Over several years before the preparation of this report, various Government announcements were made about changes to the planning processes. The initial iteration of this report was prepared after the Ministry of Housing Communities and Local Government (MHCLG) updated the National Planning Policy Framework, (2018 NPPF), and published new Planning Practice Guidance (PPG) in July 2018. In February 2019 the NPPF was further updated (2019 NPPF). This early opportunity is taken to note that the methodology used in this report is consistent with the 2019 NPPF and the updated PPG.
- 1.8 An important element of this assessment is to test the ability of the Garden Town sites to bear the costs of the strategic infrastructure and mitigation. Outside this report, the Councils (assisted by ARUP) are updating the Infrastructure Delivery Plan(s) (IDP). The information from the IDP updates is used in this assessment.

### **Report Structure**

- 1.9 This report follows the following format:

<b>Chapter 2</b>	The reasons for, and approach to viability testing, including a short review of the requirements of the CIL Regulations, NPPF and PPG.
<b>Chapter 3</b>	The methodology used.
<b>Chapter 4</b>	An assessment of the housing market, including market and affordable housing with the purpose of establishing the worth of different types of housing (size and tenure) in different areas.
<b>Chapter 5</b>	An assessment of the non-residential markets with the purpose of establishing the worth of different types of commercial uses.
<b>Chapter 6</b>	An assessment of the costs of land to be used when assessing viability.
<b>Chapter 7</b>	The cost and general development assumptions to be used in the development appraisals.
<b>Chapter 8</b>	A summary of the various policy requirements and constraints that influence the type of development that come forward.
<b>Chapter 9</b>	A summary of the range of modelled sites used for the financial development appraisals.
<b>Chapter 10</b>	The results of the appraisals and consideration of residential development.
<b>Chapter 11</b>	The appraisals and consideration of non-residential development.
<b>Chapter 12</b>	This chapter is written as a non-technical summary that brings the report together and also sets out the conclusions in relation to the deliverability of development.



## Project Team

- 1.10 This project is led by HDH Planning & Development Ltd, with Arup acting as the principal sub-contractor providing cost consultancy expertise.

### *HDH Planning and Development Ltd (HDH)*

- 1.11 HDH is a specialist planning consultancy providing evidence to support planning and housing authorities. The firm's main areas of expertise are:

- a. District wide and site-specific viability analysis.
- b. Community Infrastructure Levy testing.
- c. Strategic Housing Market Assessments.

### *Arup*

- 1.12 Arup is an independent firm of designers, planners, engineers, consultants and technical specialists offering a broad range of professional services across the UK and internationally.

## General Caveat

- 1.13 Some of the conclusions and recommendations contained in this report are based upon information provided by others (including the Councils and consultees) and upon the assumption that all relevant information has been provided by those parties from whom it has been requested. Information obtained from third parties has not been independently verified by HDH Planning & Development Ltd or Arup, unless otherwise stated in the report. The conclusions and recommendations contained in this report are concerned with policy requirement, guidance and regulations which may be subject to change. They reflect a Chartered Surveyor's perspective and do not reflect or constitute legal advice.
- 1.14 No part of this report constitutes a valuation and the report should not be relied on in that regard.

## Metric or imperial

- 1.15 The property industry uses both imperial and metric data – often working out costings in metric (£/m<sup>2</sup>) and values in imperial (£/acre and £/sqft). This is confusing so metric measurements are used throughout this report. The following conversion rates may assist readers.

1m	=	3.28ft (3' and 3.37")	1ft	=	0.30m
1m <sup>2</sup>	=	10.76 sqft	1sqft	=	0.0929m <sup>2</sup>
1ha	=	2.471acres	1acre	=	0.405ha.

- 1.16 A useful broad rule of thumb to convert m<sup>2</sup> to sqft is simply to add a final zero.

## Compliance

1.17 HDH Planning & Development Ltd is a firm regulated by the Royal Institution of Chartered Surveyors. As a firm regulated by the RICS it is necessary to have regard to RICS Professional Standards and Guidance. For the purpose of this assessment there are two principle pieces of relevant guidance being the *Draft Financial viability in planning: conduct and reporting RICS professional statement, England (October 2018)* and *Financial Viability in planning (1st edition), RICS guidance note 2012*.

1.18 Reference is made to *Financial Viability in planning (1st edition), RICS guidance note 2012*, although it is important to note that this Guidance is subject to a full review to reflect the changes in the 2019 NPPF and the updated PPG (July 2018) so relatively little weight is given to this<sup>1</sup>. *Draft Financial viability in planning: conduct and reporting RICS professional statement, England (October 2018)* is in draft form at the time of this report however this opportunity is taken (in the spirit of the draft) to confirm as follows:

### *Objectivity, impartiality, and reasonableness statement*

1.19 HDH confirms that in preparing this report the firm has acted with objectivity, impartially and without interference. It is important to note that HDH is appointed by the Councils and followed a collaborative approach involving the Councils, developers, landowners and other interested parties. There has not been agreement on all points by all parties, it has therefore been necessary to make a judgment where making assumptions.

### *Instructions, absence of conflicts of interest, basis of fees*

1.20 The scope under which this project is undertaken is included in **Appendix 1** of this report.

1.21 HDH confirms it has no conflicts of interest (or perceived conflicts of interest) in undertaking this project. HDH confirms that in preparing this report, no performance-related or contingent fees have been agreed.

### *Transparency of information*

1.22 The presumption is that a viability assessment should be published in full. HDH confirms that this report has been prepared on this basis.

### *Non-technical summaries*

1.23 HDH confirms that a non-technical summary (being Chapter 12 of this report) has been provided.

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<sup>1</sup> As set out at 1.1 in the *Draft Financial viability in planning: conduct and reporting, RICS professional statement, England*.

### Value Engineering

- 1.24 The draft Professional Statement includes the following text:

*Members **must** also consider if the advice they are giving represents the most effective and efficient way to deliver optimum development performance of the scheme being tested. This is sometimes referred to as 'value engineering' and will involve quantity surveyors, agents and other professionals. LPAs and their advisers need to be confident that the FVA fully reflects the way the development would actually be carried out. If this is not the case, then it should be stated and explained.*

*It follows that members **must** include a statement that these matters have been given full consideration in the FVA. Corresponding statements **must**, where appropriate, be included in other professional and specialist inputs to the FVA.*

- 1.25 The draft RICS Guidance is not consistent with the PPG in this regard. The PPG sets out that:

*In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.*

PPG 10-010-20180724

- 1.26 This is a high-level viability assessment considering the delivery of the Harlow Garden Town. HDH's instructions specifically do NOT include a review of the proposals, rather the instructions are to provide viability advice for others to consider.



## 2. Viability Testing

- 2.1 Viability testing is an important part of the planning process. The requirement to assess viability forms part of the National Planning Policy Framework (NPPF), and is a requirement of the CIL Regulations. In each case the requirement is slightly different, but they have much in common.
- 2.2 Over several years, in the run up to this report, various national consultations have been carried out with regard to different aspects of the plan-making process. These have included references to, and sections on, viability. The NPPF and the viability sections of the Planning Practice Guidance (PPG) were updated in July 2018 replacing the earlier documents. The NPPF was further updated in February 2019, although the changes in this iteration do not directly impact on the requirements to consider viability.

### National Planning Policy Framework (February 2019)

- 2.3 As in the 2012 NPPF, viability remains a core area of the plan-making process. The 2019 NPPF does not include detail on the viability process, rather stresses the importance of viability.
- 2.4 The main change is a shift of viability testing from the development management stage to the plan-making stage.

*Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.*

*2019 NPPF, Paragraph 57*

- 2.5 Careful consideration has been made to the updated PPG in this assessment (see below).
- 2.6 The effectiveness of plans was important under the 2012 NPPF, but a greater emphasis is put on deliverability in the 2019 NPPF. The following, updated, definition is provided:

**Deliverable:** *To be considered deliverable, sites for housing should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years. In particular:*

- a) *sites which do not involve major development and have planning permission, and all sites with detailed planning permission, should be considered deliverable until permission expires, unless there is clear evidence that homes will not be delivered within five years (for example because they are no longer viable, there is no longer a demand for the type of units or sites have long term phasing plans).*
- b) *where a site has outline planning permission for major development, has been allocated in a development plan, has a grant of permission in principle, or is identified on a brownfield*

*register, it should only be considered deliverable where there is clear evidence that housing completions will begin on site within five years.*

*2019 NPPF Glossary*

- 2.7 Under the heading *Identifying land for homes*, the importance of viability is highlighted:

*Strategic policy-making authorities should have a clear understanding of the land available in their area through the preparation of a strategic housing land availability assessment. From this, planning policies should identify a sufficient supply and mix of sites, taking into account their availability, suitability and likely economic viability. Planning policies should identify a supply of:*

- a) specific, deliverable sites for years one to five of the plan period<sup>32</sup>; and*
- b) specific, developable sites or broad locations for growth, for years 6-10 and, where possible, for years 11-15 of the plan.*

*2019 NPPF, Paragraph 67*

- 2.8 Under the heading *Making effective use of land*, viability forms part of ensuring land is suitable for development:

*Local planning authorities, and other plan-making bodies, should take a proactive role in identifying and helping to bring forward land that may be suitable for meeting development needs, including suitable sites on brownfield registers or held in public ownership, using the full range of powers available to them. This should include identifying opportunities to facilitate land assembly, supported where necessary by compulsory purchase powers, where this can help to bring more land forward for meeting development needs and/or secure better development outcomes.*

*2019 NPPF, Paragraph 119*

- 2.9 The 2019 NPPF does not include technical guidance on undertaking viability work. This is included within the PPG that was also updated in July 2018.

### **Planning Practice Guidance (July 2018)**

- 2.10 The viability sections of the PPG (section 10) have been completely rewritten, although the changes provide clarity and confirm best practice, rather than prescribe a new approach or methodology. The updated PPG includes 4 main sections:

#### *1 - Viability and plan making*

- 2.11 The overall requirement is that:

*...policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106...*

*PPG 10-001-20180724*

- 2.12 This assessment takes a proportionate approach, building on the Councils' existing evidence<sup>2</sup>, and considers all the local and national policies<sup>3</sup> that will apply to new development.

*It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers.*

PPG 10-002-20180724

- 2.13 Consultation forms an important part of this assessment. A series of meetings were held with the site promoters in August and September 2018 and a further round of meetings was held in mid-February 2019.

*Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for the planned types of sites and development to be deliverable, without the need for further viability assessment at the decision making stage.*

PPG 10-002-20180724

- 2.14 The delivery of affordable housing has been tested against a range of levels of developer contributions as assessed under the Councils' Infrastructure Delivery Plan (IDP).

*It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant.*

PPG 10-002-20180724

- 2.15 In this assessment the Councils have specifically engaged with the promoters of the key sites.

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

PPG 10-003-20180724

- 2.16 This assessment is looking at the key Garden Town sites so is based on these, rather than on typologies<sup>4</sup>.

*Average costs and values can be used to make assumptions about how the viability of each type of site would be affected by all relevant policies. Comparing data from existing case study*

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<sup>2</sup> As set out in Chapter 3.

<sup>3</sup> As set out in Chapter 7.

<sup>4</sup> The PPG provides further detail at 10-004:

*A typology approach is where sites are grouped by shared characteristics such as location, whether brownfield or greenfield, size of site and current and proposed use or type of development. The characteristics used to group sites should reflect the nature of sites and type of development proposed for allocation in the plan.*

*sites will help ensure assumptions of costs and values are realistic and broadly accurate. In using market evidence it is important to disregard outliers.*

PPG 10-004-20180724

- 2.17 This assessment draws on a wide range of data sources. Outliers have been disregarded.

*It is important to consider the specific circumstances of strategic sites. Plan makers can undertake site specific viability assessment for sites that are critical to delivering the strategic priorities of the plan. This could include, for example, large sites, sites that provide a significant proportion of planned supply, sites that enable or unlock other development sites or sites within priority regeneration areas. Information from other evidence informing the plan (such as Strategic Housing Land Availability Assessments) can help inform viability assessment for strategic sites.*

PPG 10-005-20180724

- 2.18 The key Garden Town sites are considered individually against the best estimate of their strategic infrastructure and mitigation requirements.

*Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage.*

*It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.*

PPG 10-006-20180724

- 2.19 As set out above and through this report, consultation has formed part of the preparation of this assessment. This assessment specifically considers the total cumulative cost of all relevant policies.

## 2 - Viability and decision taking

- 2.20 It is beyond the scope of this assessment to consider viability in decision making. It is however important to note that this assessment will form the starting point for future development management consideration of viability across the Garden Town.

## 3 - Standardised inputs to viability assessment

- 2.21 The general principles of viability testing are set out under paragraph PPG 10-010-20180724.

*Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.*

*This National Planning Guidance sets out the government's recommended approach to viability assessment for planning. The approach supports accountability for communities by enabling them to understand the key inputs to and outcomes of viability assessment.*

*Any viability assessment should be supported by appropriate available evidence informed by engagement with developers, landowners, and infrastructure and affordable housing providers.*



*Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making.*

*In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.*

PPG 10-010-20180724

- 2.22 This assessment sets out the approach, methodology and assumptions used. These have been subject to consultation and have drawn on a range of data sources. Ultimately, the Councils will use this report to inform the discussions (in terms of amount and timing) they have with the site promoters concerning the delivery of the strategic infrastructure and mitigation measures required.

*Gross development value is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development broad assessment of value in line with industry practice may be necessary.*

*For broad area-wide or site typology assessment at the plan making stage, average figures can be used, with adjustment to take into account land use, form, scale, location, rents and yields, disregarding outliers in the data. For housing, historic information about delivery rates can be informative.*

PPG 10-011-20180724

- 2.23 The residential values have been established through data from the Land Registry and other sources. These have been averaged as suggested. Non-residential values have been derived through consideration of capitalised rents as well as sales.

- 2.24 Paragraph 10-012-20180724 lists a range of costs to be taken into account.

- *build costs based on appropriate data, for example that of the Building Cost Information Service*
- *abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value*
- *site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value*
- *the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value*
- *general finance costs including those incurred through loans*
- *professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value*
- *explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return*

2.25 All these costs are taken into account.

2.26 The PPG then sets out how land values should be considered, confirming the use of the Existing Use Value Plus (EUV+) approach.

*To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+).*

PPG 10-013-20180724

2.27 Paragraph 10-014-20180724 of the PPG goes on to set out:

*Benchmark land value should:*

- be based upon existing use value*
- allow for a premium to landowners (including equity resulting from those building their own homes)*
- reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

*In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.*

2.28 The approach adopted in this assessment is to start with the EUV. The 'plus' element is informed by the price paid for policy compliant schemes to ensure an appropriate landowners' premium.

*Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.*

PPG 10-016-20180724

2.29 The EUV has been established in this way.



- 2.30 Finally, for the purpose of this assessment, the PPG sets out an approach to the developers' return

*Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.*

*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.*

PPG 10-018-20180724

- 2.31 As set out in Chapter 7 below, this approach is followed.

#### 4 - Accountability

- 2.32 This is a new section in the PPG. It sets out new requirements on reporting. These set out how the Councils must report on and monitor developer contributions. It will be necessary for the Councils to do this.
- 2.33 In line with paragraph 10-020-20180724 of the PPG that says that '*practitioners should ensure that the findings of a viability assessment are presented clearly. An executive summary should be used to set out key findings of a viability assessment in a clear way*', Chapter 12 of this report is written as a standalone non-technical summary that brings the evidence together.

### Community Infrastructure Levy Regulations and Guidance

- 2.34 The CIL Regulations are broad, so it is necessary to have regard to them and the CIL Guidance (which is contained within the PPG<sup>5</sup>) when considering the delivery of the development at the plan-making stage, well as when specifically considering CIL. In November 2015, the Government launched the CIL Review. This was a complete review of the Levy, the results of which<sup>6</sup> were published with the Housing White Paper in February 2017. A range of recommendations were made, some of which are to be subject to further consultation.
- 2.35 More recently *Government response to supporting housing delivery through developer contributions, A summary of consultation responses and the Government's view on the way*

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<sup>5</sup> See section 25 of the PPG at <https://www.gov.uk/guidance/community-infrastructure-levy>

<sup>6</sup> A Report by the CIL Review Team – A New Approach to Developer Contributions (October 2016) and The value, impact and delivery of the Community Infrastructure Levy, DCLG (February 2017).

forward, MHCLG (October 2018) was published<sup>7</sup>. This clarifies the direction of travel but does not include a timetable for changes. It will be necessary for the Councils to continue to monitor changes in this regard.

- 2.36 The CIL Regulations came into effect in April 2010 and have been subject to several subsequent amendments<sup>8</sup>. CIL Regulation 14 (as amended) sets out the core principle for setting CIL. At the time of this report the Government is consulting on further changes to the CIL Regulations. If implemented, these changes would not have a material impact on this assessment. It is necessary to consider these as they do impact on the wider development plan-making process, as well as the direct CIL setting process:

*Setting rates*

- (1) *In setting rates (including differential rates) in a charging schedule, a charging authority must strike an appropriate balance between—*
- (a) *the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and*
  - (b) *the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.*
- (2) *In setting rates ...*

- 2.37 Viability testing in the context of CIL is to assess the 'effects' on development. Ultimately the test that will be applied to CIL is as set out in the examination section of the PPG:

*documents containing appropriate available evidence ... evidence has been provided that shows the proposed rate or rates would not threaten delivery of the relevant Plan as a whole ...*

*PPG 25-038-20140612*

- 2.38 The financial impact of introducing CIL is an important factor, but the provision of infrastructure (or lack of it) will also have an impact on the ability of the Councils to meet their objectives through development and deliver their Development Plans.
- 2.39 The test that will be considered when setting CIL is set out in the CIL sections (Chapter 25) of the PPG:

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<sup>7</sup> <https://www.gov.uk/government/consultations/supporting-housing-delivery-through-developer-contributions>

<sup>8</sup> **SI 2010 No. 948.** The Community Infrastructure Levy Regulations 2010 *Made 23rd March 2010, Coming into force 6th April 2010.* **SI 2011 No. 987.** The Community Infrastructure Levy (Amendment) Regulations 2011 *Made 28th March 2011, Coming into force 6th April 2011.* **SI 2011 No. 2918.** The Local Authorities (Contracting Out of Community Infrastructure Levy Functions) Order 2011. *Made 6th December 2011, Coming into force 7th December 2011.* **SI 2012 No. 2975.** The Community Infrastructure Levy (Amendment) Regulations 2012. *Made 28th November 2012, Coming into force 29th November 2012.* **SI 2013 No. 982.** The Community Infrastructure Levy (Amendment) Regulations 2013. *Made 24th April 2013, Coming into force 25th April 2013.* **SI 2014 No. 385.** The Community Infrastructure Levy (Amendment) Regulations 2013. *Made 24th February 2014, Coming into force 24th February 2014.* **SI 2015 No. 836.** COMMUNITY INFRASTRUCTURE LEVY, ENGLAND AND WALES, The Community Infrastructure Levy (Amendment) Regulations 2015. *Made 20th March 2015.*

*As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.*

PPG 25-009-20140612

- 2.40 The test is whether the sites and the scale of development identified in the Plans are subject to such a scale of obligations and policy burdens (when considered together) that their ability to be developed viably is threatened by CIL. This is somewhat more cautious than the approach set out in earlier guidance. In the March 2010 CIL Guidance, the test was whether the Plan was put at '*serious risk*', and in the December 2012 / April 2013 CIL Guidance, the test was whether CIL '*threatened the development plan as a whole*' – although it is important to note that the CIL Regulation 14 is clear that the purpose of the viability testing is to establish '*the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area*' rather than specific sites.
- 2.41 From April 2015, councils have been restricted in relation to pooling S106 contributions from more than five developments<sup>9</sup> (where the obligation in the s106 agreement / undertaking is a reason for granting consent). This restriction encourages councils to adopt CIL. The Councils can still raise additional s106 funds for infrastructure, provided this infrastructure can be directly linked to the site-specific needs associated with the scheme in question, and that it is not for infrastructure specifically identified to be funded by CIL, through the Regulation 123 List<sup>10</sup>. Payments requested under the s106 regime must be (as set out in CIL Regulation 122):
- a. necessary to make the development acceptable in planning terms;
  - b. directly related to the development; and
  - c. fairly and reasonably related in scale and kind to the development.
- 2.42 The Government recently consulted on lifting the pooling restrictions and abolishing 123 lists<sup>11</sup>.
- 2.43 It is important to note that the counting of the 'five or more sites' relates to the '*provision of that project, or type of infrastructure*' and is from the date of the CIL Regulations, being April 2010. The Councils will need to consider whether the threshold has already been exceeded for some items of infrastructure. In this regard *Government response to supporting housing delivery through developer contributions, A summary of consultation responses and the Government's view on the way forward, MHCLG (October 2018)* suggests that the pooling restrictions will be lifted.

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<sup>9</sup> CIL Regulations 123(3)

<sup>10</sup> This is the list of the items on which the Council will spend CIL.

<sup>11</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/767292/CIL\\_Amendment\\_Regulations\\_Consultation\\_Paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767292/CIL_Amendment_Regulations_Consultation_Paper.pdf)

## Viability Guidance

- 2.44 There is no specific technical guidance on how to test the viability in the 2019 NPPF or the updated PPG, although the updated PPG includes a guidance in a number of specific areas and sets out the general principles. There are several sources of guidance and appeal decisions<sup>12</sup> that support the methodology HDH has developed and is used here. This assessment follows the *Viability Testing in Local Plans – Advice for planning practitioners* (LGA/HBF – Sir John Harman) June 2012<sup>13</sup> (known as the **Harman Guidance**). This contains the following definition:

*An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.*

- 2.45 The planning appeal decisions, and the HCA good practice publication<sup>14</sup> suggest that the most appropriate test of viability for planning policy purposes is to consider the Residual Value of schemes compared with the EUV, plus a premium. The premium over and above the EUV being set at a level to provide the landowner with the inducement to sell. The Harman Guidance and *Financial viability in planning, RICS guidance note, 1st edition* (GN 94/2012) which was published during August 2012 (known as the **RICS Guidance**) set out the principles of viability testing. Additionally, the Planning Advisory Service (PAS)<sup>15</sup> provides viability guidance and manuals for local authorities.

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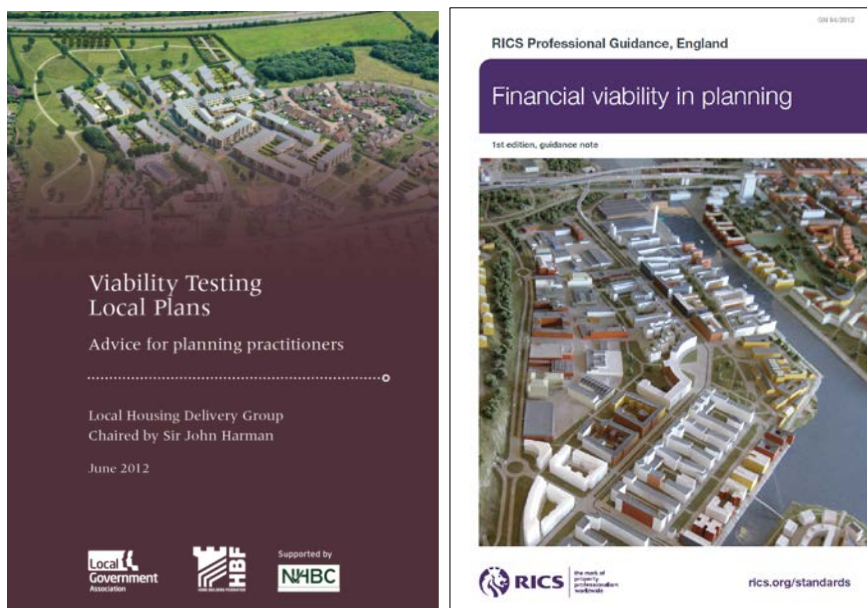
<sup>12</sup> Barnet: APP/Q5300/ A/07/2043798/NWF, Bristol: APP/P0119/ A/08/2069226, Beckenham: APP/G5180/ A/08/2084559, Bishops Cleeve: APP/G1630/A/11/2146206 Burgess Farm: APP/U4230/A/11/2157433, CLAY FARM: APP/Q0505/A/09/2103599/NWF, Woodstock: APP/D3125/ A/09/2104658, Shinfield APP/X0360/ A/12/2179141, Oxenholme Road, APP/M0933/A/13/2193338, Former Territorial Army Centre, Parkhurst Road, Islington APP/V5570/W/16/3151698, Vannes: Court of Appeal 22 April 2010, [2010] EWHC 1092 (Admin) 2010 WL 1608437

<sup>13</sup> Viability Testing in Local Plans has been endorsed by the Local Government Association and forms the basis of advice given by the, CLG funded, Planning Advisory Service (PAS).

<sup>14</sup> Good Practice Guide. Homes and Communities Agency (July 2009).

<sup>15</sup> PAS is funded directly by DCLG to provide consultancy and peer support, learning events and online resources to help local authorities understand and respond to planning reform. (Note: Much of the most recent advice has been co-authored by HDH).





- 2.46 There is considerable common ground between the 2012 RICS Guidance and the Harman Guidance, but they are not consistent. The RICS Guidance recommends against the 'current/EUV plus a margin' – which is the methodology recommended in the Harman Guidance.

*One approach has been to exclusively adopt current use value (CUV) plus a margin or a variant of this, i.e. existing use value (EUV) plus a premium. The problem with this singular approach is that it does not reflect the workings of the market as land is not released at CUV or CUV plus a margin (EUV plus).....*

*Financial viability in planning, RICS guidance note, 1st edition (GN 94/2012)*

- 2.47 The Harman Guidance advocates an approach based on Threshold Land Value (Threshold Land Value is equivalent to Benchmark Land Value as referred to in the updated PPG):

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

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

*Viability Testing in Local Plans – Advice for planning practitioners. (June 2012)*

- 2.48 As set out above, the PPG requires the use of the Existing Use Value Plus (EUV+) approach.

*To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+).*

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2.49 The RICS Guidance dismisses a Threshold Land Value approach as follows:

*Threshold land value. A term developed by the Homes and Communities Agency (HCA) being essentially a land value at or above that which it is assumed a landowner would be prepared to sell. It is not a recognised valuation definition or approach.*

2.50 As set out at paragraph 1.1 of the *Draft Financial viability in planning: conduct and reporting, RICS professional statement, England* the RICS recognises that the RICS Guidance does not fit with 2019 NPPF and updated PPG so is subject to a full review to reflect the changes in the 2019 NPPF and the updated PPG (July 2018). Relatively little weight is given to the RICS Guidance in this regard at this stage.

2.51 In line with the updated PPG this assessment follows the EUV Plus (EUV+) methodology. The methodology is to compare the Residual Value generated by the viability appraisals, with the EUV plus an appropriate uplift to incentivise a landowner to sell. The amount of the uplift over and above the EUV is central to the assessment of viability. It must be set at a level to provide a return to the landowner. To inform the judgement as to whether the uplift is set at the appropriate level reference is made to the value of the land both with and without the benefit of planning.

2.52 This approach is in line with that recommended in the Harman Guidance (as endorsed by LGA, PAS) – and also broadly in line with the thrust of the RICS Guidance of having reference to market value.



## 3. Methodology

### Viability Testing – Outline Methodology

- 3.1 This report follows the Harman Guidance, the 2019 NPPF and updated PPG. The promoters of the Garden Town sites have been consulted.
- 3.2 The availability and cost of land are matters at the core of viability for any property development. The format of the typical valuation is:

**Gross Development Value**  
(The combined value of the complete development)

LESS

**Cost of creating the asset, including a profit margin**  
(Construction + fees + finance charges)

=

**RESIDUAL VALUE**

- 3.3 The result of the calculation indicates a land value, the Residual Value. The Residual Value is the top limit of what a developer could offer for a site and still make a satisfactory return (i.e. profit).
- 3.4 It is well recognised in viability testing that the developer should be rewarded for taking the risks of development. The essential balance in viability testing is around the land value and whether or not land will come forward for development. The more policy requirements and developer contributions the planning authority asks for, the less the developer can afford to pay for the land. The purpose of this assessment is to quantify the costs of the Councils' various policies, including the strategic infrastructure and mitigation costs, on development and to assess their effect, and then to make a judgement as to whether or not land prices are squeezed to such an extent that, in the context of the 2019 NPPF, the development is threatened to such an extent that it is not delivered.
- 3.5 The land value is a difficult topic since a landowner is unlikely to be entirely frank about the price that would be acceptable, always seeking a higher one. This is one of the areas where an informed assumption has to be made about the 'premium': the margin above the EUV which would induce the landowner sell. Both the RICS Guidance and the PPG make it clear that, when considering land value, this must be done in the context of current and emerging policies.
- 3.6 It is important to note that this assessment is not trying to mirror any particular developer's business model – rather it is making a broad assessment of viability in the context of plan-making and the requirements of the 2019 NPPF (and updated PPG).

### The meaning of Landowner Premium

- 3.7 The phrase ‘landowner premium’ is new in the updated PPG (July 2018). Under the 2012 NPPF and the superseded PPG the phrase ‘competitive return’ was used. The 2012 RICS Guidance includes the following definition:

**Competitive returns** - A term used in paragraph 173 of the NPPF and applied to ‘a willing land owner and willing developer to enable development to be deliverable’. A ‘Competitive Return’ in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A ‘Competitive Return’ in the context of a developer bringing forward development should be in accordance with a ‘market risk adjusted return’ to the developer, as defined in this guidance, in viably delivering a project.

- 3.8 Whilst this is useful, it does not provide guidance as to the size of that return. The updated PPG says:

*Benchmark land value should:*

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

*In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.*

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- 3.9 There has been much discussion within the industry as to what may and may not be a landowner premium, as yet the term has not been given a firm definition through the appeal, planning examination or legal processes. ‘Competitive return’ was considered at the Shinfield Appeal (January 2013)<sup>16</sup> and clarification was added in the Oxenholme Road Appeal (October 2013)<sup>17</sup> where the inspector confirmed that the methodology set out in Shinfield was site specific and should only be given limited weight. More recently further clarification has been

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<sup>16</sup> APP/X0360/A/12/2179141 (Land at The Manor, Shinfield, Reading RG2 9BX)

<sup>17</sup> APP/M0933/ A/13/ 2193338 (Land to the west of Oxenholme Road, Kendal, Cumbria)

provided in the Territorial Army Centre, Parkhurst Road, Islington Appeal<sup>18</sup> (June 2017), which has subsequently been confirmed by the High Court<sup>19</sup>. This notes the importance of comparable data, but stresses the importance of the quality of the comparable. The level of return to the landowner is discussed and the approach taken in this assessment is set out in the later parts of Chapter 6 below.

### Existing Available Evidence

- 3.10 The 2019 NPPF, the updated PPG, the CIL Regulations and CIL Guidance are clear that the assessment of the potential impact of CIL should, wherever possible, be based on existing available evidence rather than new evidence. The evidence that is available from the Councils has been reviewed:
- 3.11 Primarily, this is what has been prepared for the Councils to inform their separate Plans:
- a. *EHDC Plan Viability, Affordable Housing and CIL Study*. PBA, 1<sup>st</sup> October 2015.
  - b. *EFDC Stage 2: Update Assessment of the Viability of Affordable Housing, CIL and the Local Plan*. Dixon Searle, November 2017.
  - c. *Local Plan Viability Assessment, Affordable Housing and CIL Review*. BNP Paribas, March 2018.
- 3.12 These three studies have been prepared by different consultancies, however all are broadly consistent in their approach and assumptions. These have been used as the starting point for this assessment.
- 3.13 The Councils also hold evidence of what is being collected from developers under the s106 regime. This is being collected outside this assessment but will be drawn on by the Councils when considering the results.

### Stakeholder Engagement

- 3.14 The PPG and the Harman Guidance require stakeholder engagement – particularly with members of the development industry. A series of informal consultation events were held in the autumn of 2018, and in February 2019, with the promoters of the four new Garden Communities.

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<sup>18</sup> APP/V5570/W/16/3151698 (Former Territorial Army Centre, Parkhurst Road, Islington, London, N7 0LP)

<sup>19</sup> Parkhurst Road Limited v Secretary of State for Communities and Local Government and The Council of the London Borough of Islington [2018] EWHC 991 (Admin)

<b>Table 3.1 Stakeholder Meetings (Viability)</b>		
<b>Workshop</b>	<b>Date</b>	<b>Purpose</b>
Developer Forum	10 September 2018	Early engagement with developer to introduce them to the commission.
Face-to-face developer meetings	04 December 2018	To present the draft list of infrastructure requirements and seek feedback on apportionment methodology.
Face-to-face developer meetings	04 and 05 March 2019	To seek feedback on apportionment and viability.

Source: HDH 2019

3.15 In addition, Arup held a further meeting on 26<sup>th</sup> September to specifically discuss the Infrastructure requirements.

3.16 The initial consultation meetings were structured into three parts:

- a) A recap of viability testing in the context of the NPPF and the delivery of the Harlow and Gilston Garden Town sites.
- b) The main assumptions for the viability assessments were set out including development values, development costs, land prices, developers' and landowners' returns.
- c) The consultants and consultees talked through the main points.

3.17 A wide range of comments were made, some of which were more concerned with the process and wider evidence base (for example the IDPs). This assessment is only concerned with viability, the main viability points are summarised below:

- a. Generally, the methodology and approach is appropriate. Having said this one consultee<sup>20</sup> did set out some concerns around high level testing and suggested that there may be a need to undertake more detailed site-specific work later in the plan-making process. Such an approach would be normal and fully in accordance with the PPG<sup>21</sup>.

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<sup>20</sup> Latton Priory

<sup>21</sup> Paragraph 10-006-20180724 of the PPG says (selective quotation):

*Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage.*

*It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.*

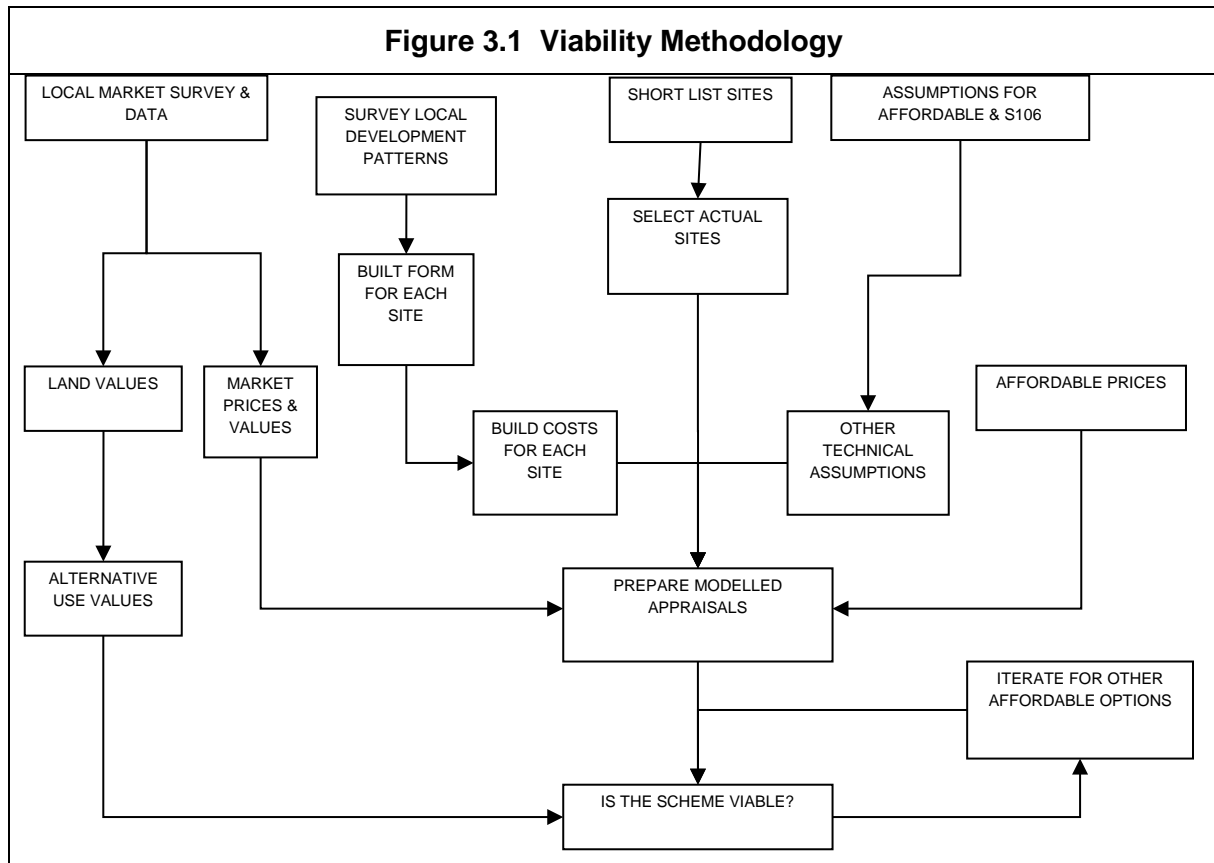
- b. There were concerns about the housing mix being based on the mix of housing recommended under the SHMA<sup>22</sup>.
  - c. There were concerns that the construction costs may be understated being based on BCIS Lower Quartile costs.
- 3.18 The second round of consultation meetings were primarily to discuss the detail of the emerging Garden Town IDP, but the developers were also provided with a draft copy of this report.
- 3.19 The comments of the consultees (from both rounds of consultation) are reflected through this report and the assumptions adjusted where appropriate. There was not agreement on all points although there was a broad consensus on most matters. Where there was disagreement, a judgement has been made and an explanation as to why the assumption used is set out.

### Viability Process

- 3.20 The assessment of viability as required under the 2019 NPPF is not done using a set formula or calculation. It is a quantitative and qualitative process. The updated PPG requires that (at PPG 10-001-20180724) *'...policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106'*.
- 3.21 The basic viability methodology is summarised in the figure below. It involves preparing financial development appraisals for the Garden Town sites, and using these to assess whether the sites are viable. The sites were modelled based on discussions with Councils' officers and the developers, the existing available evidence supplied to us by the Councils, and on our own experience of development. Details of the site modelling are set out in Chapter 9 below.

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<sup>22</sup> West Essex and East Hertfordshire Strategic Housing Market Assessment (ORS, September 2015)



3.22 The sites include a range of uses, the main use being residential. The residential elements are as follows.

<b>Table 3.2 Summary of Main Harlow and Gilston Garden Town Sites</b>	
	Units
East of Harlow (North)	750
East of Harlow (South)	2,600
Latton Priory	1,050
Water Lane Area (Sumners)	807
Water Lane Area (Katherines)	1,331
Gilston (Villages 1-6)	8,500
Gilston (Village 7)	1,500

Source: HC, EHDC, EFDC (November 2018) – In some cases minimum numbers are specified.

3.23 The eventual planning applications may well be different. In this assessment it is necessary to test the sites in the context of the planning policies and wider evidence base.

3.24 The local housing and commercial markets were surveyed, in order to obtain sales values. Land values were assessed to calibrate the appraisals and to assess EUVs. Alongside this local development patterns were considered, in order to arrive at appropriate built form

assumptions. These in turn informed the appropriate build cost figures. A number of other technical assumptions<sup>23</sup> were required before appraisals could be produced.

- 3.25 The appraisal results are in the form of £/ha 'residual' land values, showing the maximum value a developer could pay for the site and still make an appropriate return. The Residual Value was compared to the EUV for each site. Only if the Residual Value exceeded the EUV, by a satisfactory margin (or premium), can the scheme be judged to be viable. The amount of margin is discussed in the later parts of Chapter 6 below.
- 3.26 The appraisals are based on the policies as summarised in Chapter 8 below, as they stood in October 2018. The policies, and ultimately the unadopted Local Plans may be subject to further changes. For appropriate sensitivity testing a range of options including different levels of affordable housing provision and different levels of developer contributions are tested.
- 3.27 A bespoke viability testing model designed and developed by HDH Planning & Development Ltd specifically for area wide viability testing as required by the NPPF and CIL Regulations<sup>24</sup> is used. The purpose of the viability model and testing is not to exactly mirror any particular business model used by those companies, organisations or people involved in property development. The purpose is to capture the generality and to provide high level advice to assist the Councils in assessing the deliverability of the Local Plans (and to set CIL).
- 3.28 Following the February 2019 round of consultation, a site promoter<sup>25</sup> commented that the *'Residual Land Value should be responsive to changes in values and costs, and it is therefore difficult to establish whether this has been calculated accurately'*. The implication of this is that the Residual Value is a figure that is an adjustable input. This is not the case, the Residual Value is the output of the model. The Residual Value will change as the inputs are altered so this opportunity is taken to confirm that it is responsive to changing inputs.
- 3.29 Comments were also made around the sensitivity of appraisals to changes in the assumptions (including cashflow assumptions). This is accepted, however in this assessment it is necessary to take a series of assumptions that are based on the available evidence and that are generally cautious, and use them to inform the plan-making process. In due course, more detailed information (for example on house types) may become available. The weight given to new information will depend on whether it is a requirement of policy compliance and/or simply a choice of the developer.

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<sup>23</sup> As set out in Chapter 7 below.

<sup>24</sup> This Viability Model is used as the basis for the Planning Advisory Service (PAS) Viability Workshops. It is made available to Local Authorities, free of charge, by PAS and has been widely used by Councils across England (and, to a lesser extent, Wales).

<sup>25</sup> Gilston – Village 7.





## 4. Residential Market

- 4.1 This chapter sets out an assessment of the housing market, providing the basis for the assumptions on house prices to be used in the financial appraisals for the sites tested in the assessment. The assessment is concerned not just with the prices, but the differences across Harlow Garden Town area.
- 4.2 Although development schemes do have similarities, every scheme is unique, even schemes on neighbouring sites. Market conditions will broadly reflect a combination of national economic circumstances, and local supply and demand factors, however, even within a town there will be particular localities, and ultimately site-specific factors, that generate different values and costs.
- 4.3 The starting point for this part of this assessment is the Councils' existing available evidence. The following assumptions were used:

<b>Table 4.1 Residential Values from Existing Viability Studies £/m<sup>2</sup></b>		
	Houses	Flats
<b>East Hertfordshire - 2015</b>		
Southern zone consisting of Ware, Hertford and western rural villages	£3,700	£3,864
<b>Epping Forest - 2017</b>		
Strategic sites East of Harlow generally	£4,000	
<b>Harlow - 2018</b>		
CM18, CM19, CM20 (WEST)	£3,750	
CM17 (East)	£4,000	

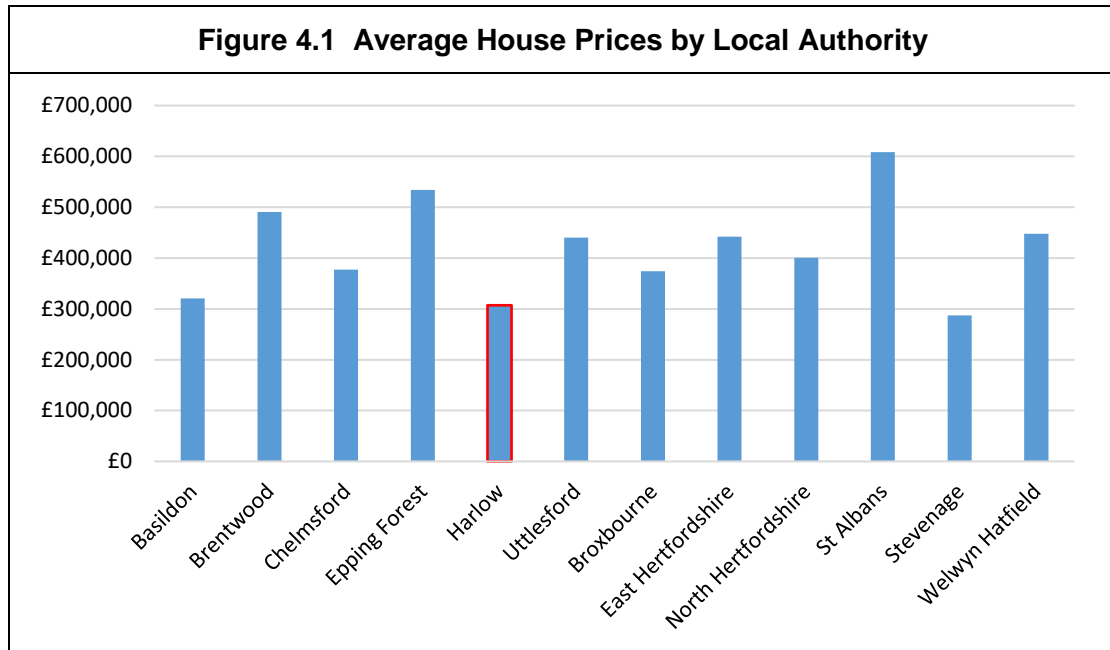
Source: EHDC Plan Viability, Affordable Housing and CIL Study. PBA, 1st October 2015. EFDC Stage 2: Update Assessment of the Viability of Affordable Housing, CIL and the Local Plan. Dixon Searle, November 2017. Local Plan Viability Assessment, Affordable Housing and CIL Review. BNP Paribas, March 2018.

- 4.4 These assumptions are reviewed. Generally, when reference is made to Harlow, reference is being made to the Harlow town housing market rather than the administrative area of Harlow Council.

### Harlow and Gilston Garden Town Residential Market

- 4.5 Harlow is one of the original New Towns and is about 25 miles north of central-London. As a Local Authority area, Harlow has tightly drawn boundaries, hence the cross-boundary co-operation behind the Harlow and Gilston Garden Town.
- a. The location is highly desirable, being just half an hour by train from Liverpool Street and less than 15 miles from Stanstead Airport. As well as being an attractive commuting area for London it also lies within the Cambridge Travel to Work Area.

- b. Of the adjacent and nearby local authority areas, Harlow has the second lowest (after Stevenage) average house prices:



Source: HPSSA 12<sup>26</sup> – Data Release 20<sup>th</sup> June 2018

It is notable that both Harlow and Stevenage have lower values than the majority of the wider area, and a similar distance (in travelling time) from Central London. Both Harlow and Stevenage are first generation New Towns, being developed at the same time and to similar designs. As a town, Harlow's house prices have not risen in the same way as those in the older Garden Cities of Welwyn and Letchworth, or the market towns of Bishops Stortford, Chelmsford or the county town of Hertford.

These lower prices may be due to the housing choice and the current housing offer. Much of the town has been developed since the 1950s, and the range of house styles and types of development is typical of the second half of the 20<sup>th</sup> Century and is rather homogenous. To some extent the lower prices are a factor of the type, style and age of the houses in the town, rather than their location.

Whilst this will have an influence on wider prices, there is no reason to suggest that should well designed and modern homes, with a greater appeal, be developed in the town, that they should not achieve prices that are somewhat higher. This can be seen at Barratt Homes' new Gilden Park scheme to the northeast of the town.

26

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/meanhousepriceforationalandsubnationalgeographiesquarterlyrollingyearhpssadataset12>

Of the adjacent and nearby Local Authority areas, Harlow has seen the largest increase in prices since the bottom of the market in 2019.

<b>Table 4.2 Change in Average House Prices</b>				
	April 2009	May 2018	Change	
<b>Harlow</b>	<b>£144,496</b>	<b>£280,567</b>	<b>£136,071</b>	<b>94%</b>
Basildon	£171,298	£305,099	£133,801	78%
Brentwood	£237,352	£413,792	£176,440	74%
Broxbourne	£203,897	£350,331	£146,434	72%
Chelmsford	£188,870	£335,754	£146,884	78%
East Herts	£228,593	£383,086	£154,493	68%
Epping Forest	£254,630	£464,020	£209,390	82%
St Albans	£277,074	£526,375	£249,301	90%
Stevenage	£162,181	£285,916	£123,735	76%
Uttlesford	£250,687	£383,134	£132,447	53%
Welwyn Hatfield	£217,392	£390,288	£172,896	80%

Source: Land Registry (July 2018)

It is not possible to attribute this change in values to a particular factor, but it is, at least in part, due to the regeneration of the town centre, the Enterprise Zone and the improved housing offer through new housing schemes.

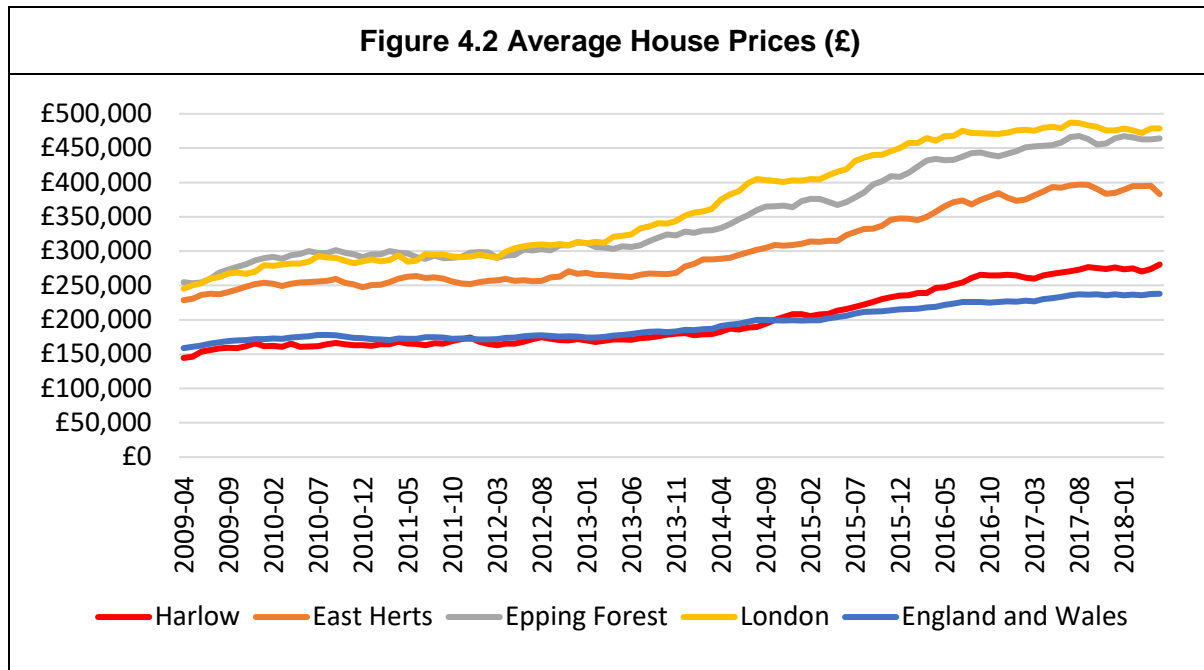
- c. The M11 motorway runs up the eastern side of Harlow, providing excellent links to Cambridge and the North, with the M25 linking to the wider Southeast. There is a good internal road network through the town.
- d. Harlow is becoming a centre for Life Science, MedTech and digital industries. Raytheon, GlaxoSmithKline and Nortel all have sites, and Public Health England recently acquired a significant site.
- e. The area is highly desirable with generally strong house prices and a vibrant property market.

- 4.6 Overall, the market is perceived to be strong and certainly desirable and aspirational to households seeking to move from London. Through conversations with local agents, the area is perceived to be an attractive place to develop, particularly with higher quality modern homes that are different to the existing stock.

#### *National Trends and Harlow's relationship with the wider area*

- 4.7 The housing market peaked late in 2007 and then fell considerably in the 2007/2008 recession that became known as the 'Credit Crunch'. Average house prices across England and Wales have recovered to their pre-recession peak; however, this is strongly influenced by London. Prices in London are now well in excess of the 2007/2008 peak. The same applies to prices in Harlow, which have also have increased more than in England and Wales.



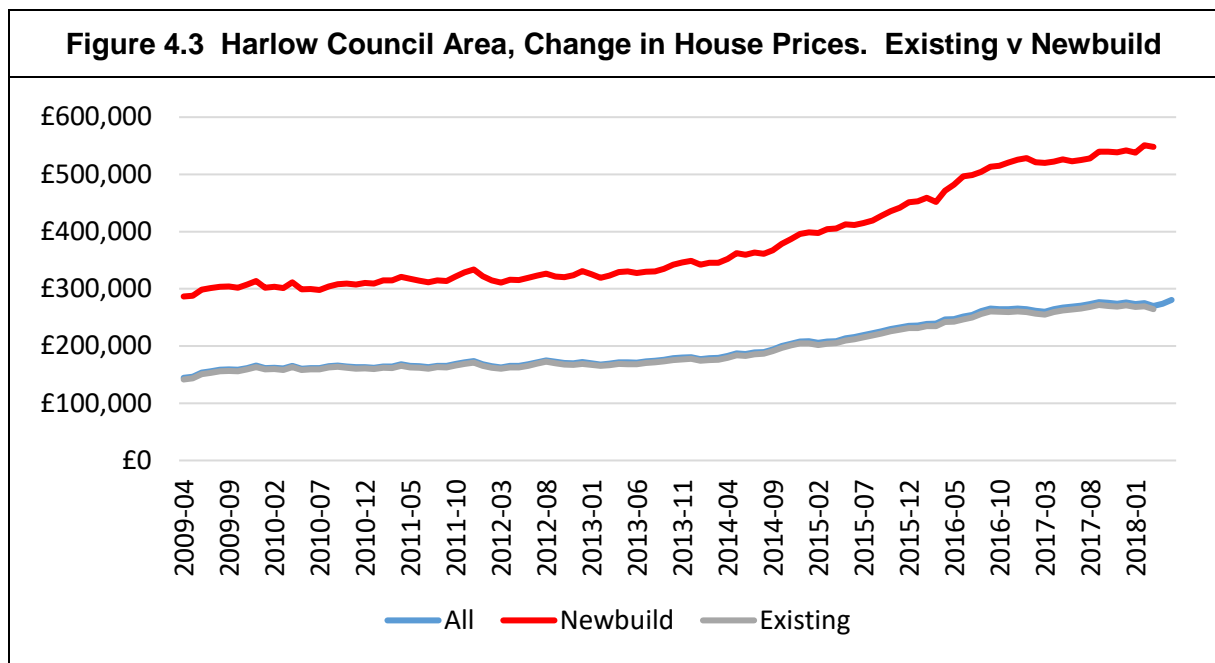


- 4.8 Up to the pre-recession peak of the market, the long-term rise in house prices had, at least in part, been enabled by the ready availability of credit to home buyers. Prior to the increase in prices, mortgages were largely funded by the banks and building societies through deposits taken from savers. During a process that became common in the 1990s, but took off in the early part of the 21st Century, many financial institutions changed their business model whereby, rather than lending money to mortgagees that they had collected through deposits, they entered into complex financial instruments and engineering through which, amongst other things, they borrowed money in the international money markets, to then lend on at a margin or profit. They also ‘sold’ portfolios of mortgages that they had granted. These portfolios also became the basis of complex financial instruments (mortgage backed securities and derivatives etc.).
- 4.9 During 2007 and 2008, it became clear that some financial institutions were unsustainable, as the flow of money for them to borrow was not certain. As a result, several failed and had to be rescued. This was an international problem that affected countries across the world – but most particularly in North America and Europe. In the United Kingdom, the high-profile institutions that were rescued included Royal Bank of Scotland, HBoS and Northern Rock. The ramifications of the recession were an immediate and significant fall in house prices, and a complete reassessment of mortgage lending with financial organisations becoming averse to taking risks, lending only to borrowers who had the least risk of default and those with large deposits.
- 4.10 It is important to note that, at the time of this report, the housing market is still actively supported by the Government through products and initiatives such as Help-to-Buy.

- 4.11 There is a degree of uncertainty in the housing market as reported by the RICS. This is, at least in part due to the uncertainties around the referendum to leave the European Union. The November 2018 RICS UK Residential Market Survey said:

*The November 2018 RICS UK Residential Market Survey results are consistent with a weaker trend in sales market activity with headline indicators on both demand and supply edging further into negative territory. Furthermore, forward looking metrics suggest that momentum is likely to continue slipping in the coming three months, although a somewhat stable trend is expected to emerge further out.*

- 4.12 When ranked across England and Wales, the average house price for the Harlow Council Area is 127<sup>th</sup> (out of 348) at just over £307,151<sup>27</sup>. To set this in context, the Council at the middle of the rank (174 - Ryedale), has an average price of £258,761. It is relevant to note that Harlow's median price is lower than the mean at £280,000<sup>28</sup>.
- 4.13 The figure above shows that prices have seen a significant recovery since the bottom of the market in mid-2009. A notable characteristic of the data is that the values of newbuild homes have increased substantially faster than that for existing homes:



Source: Land Registry (July 2018)

- 4.14 The Land Registry shows that the average price paid for newbuild homes (at £547,945) is more than double than the average price paid for existing homes (at £264,474). One consultee<sup>29</sup> suggested that this data is not helpful as it is not based on dwelling size. A second

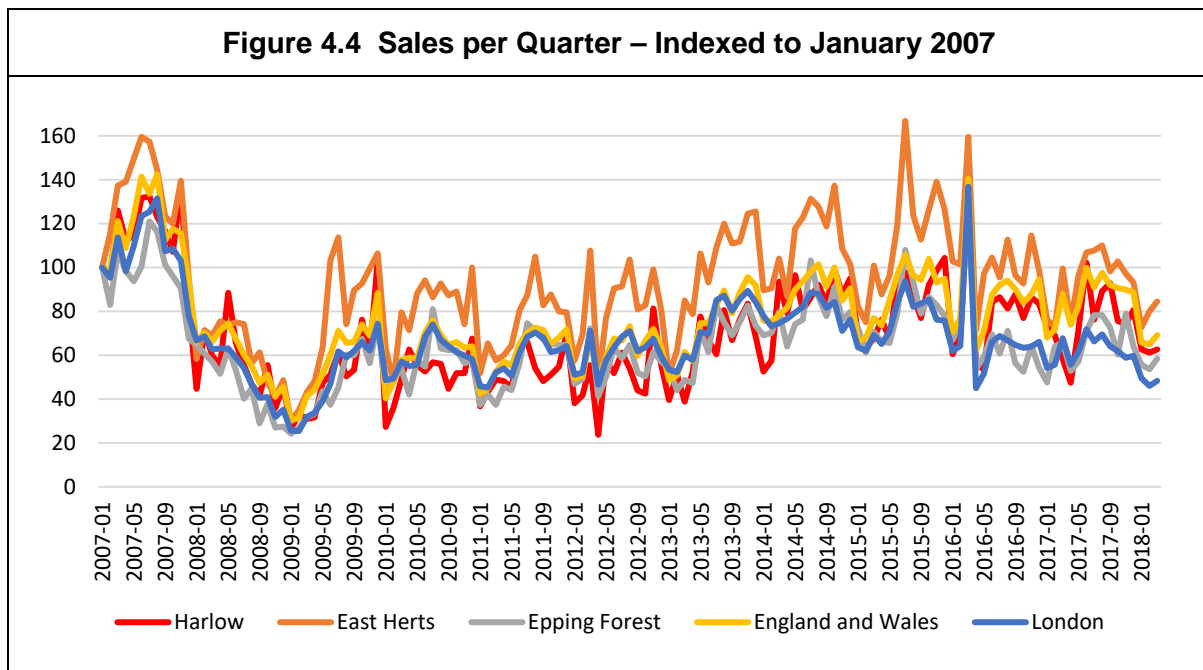
<sup>27</sup> HPSSA Dataset 12. Mean price paid for national and subnational geographies, quarterly rolling year.

<sup>28</sup> HPSSA Dataset 9. Median price paid for national and subnational geographies, quarterly rolling year.

<sup>29</sup> Water Lane, West Katherines

site promoter<sup>30</sup> suggested that as factors such as bedroom number, overall size, type, location, orientation, and other property specific characteristics were not explicit, this data was hard to understand. This is average price data for the Harlow Council administrative area as published by the Land Registry. It is useful as it shows the newbuild market is distinctly different to the market for existing homes. This data is not further disaggregated by the Land Registry so further detail cannot be extrapolated.

- 4.15 The rate of sales (i.e. sales per month) in the area is a little greater than the wider country, underlining the fact that the local market is an active market.



Source: Land Registry (July 2018)

- 4.16 This report is being completed as the United Kingdom prepares to leave the European Union. It is not yet possible to predict the impact of leaving the EU, beyond the fact that the UK and the UK economy is in a period of uncertainty. Negotiations around the details of the exit are underway but not concluded.
- 4.17 A range of views as to the impact on house prices have been expressed that cover nearly the whole spectrum of possibilities. There is clearly uncertainty in the market, and it is not for this assessment to try to predict how the market may change in the coming years, and whether or not there will be a further increase in house prices. Property agents Savills are predicting a 0% increase in the current year, 1% increase next year and a 15.3% increase over the next 5 years in the prime Outer Commute residential markets, with a 0.5% increase this year, 2.5%

<sup>30</sup> Latton Priory

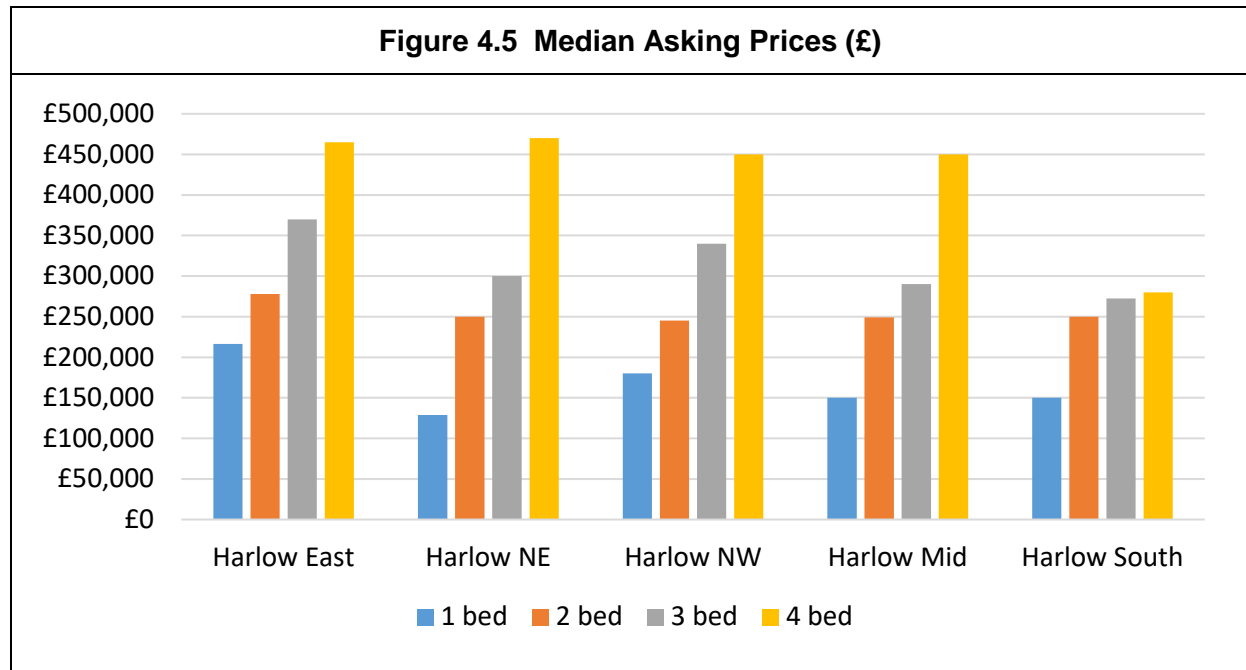
next year and 11.5% over the next 5 years in the mainstream South East residential markets<sup>31</sup>. These predictions are somewhat less than were being predicted before the Brexit referendum.

### The Local Market

- 4.18 A survey of asking prices across the Harlow town area was carried out in July 2018. Through using online tools such as [rightmove.co.uk](https://www.rightmove.co.uk) and [zoopla.co.uk](https://www.zoopla.co.uk), median asking prices were estimated.
- 4.19 Through the consultation process the derivation of price areas was questioned (on the grounds it was not fully explained rather than because it may have been wrong). As set out below, data has been collected based on postcode, based on administrative wards, and through looking at the wider area and nearby towns. Both prices paid and asking prices for new developments are considered.
- 4.20 For this report the data was initially collected based on the following geographical areas. These areas are separated by physical boundaries, (unlike wards) and are of different characters – for example they are made up of different types and age of housing development. There is no right or wrong way to approach the data collection, it is useful to consider a range of approaches.
- a. **Harlow East** – the area to the east of the A414
  - b. **Harlow North East** – the area to the north of the A1025, west of the A414 and east of the A1019.
  - c. **Harlow North West** – the area to the west of the A1019 and to the north of the A1025.
  - d. **Harlow Central** – the area to the south of the A1025, to the north of the A1169 and the west of the A414.
  - e. **Harlow South** – the area to the south of the A1169.

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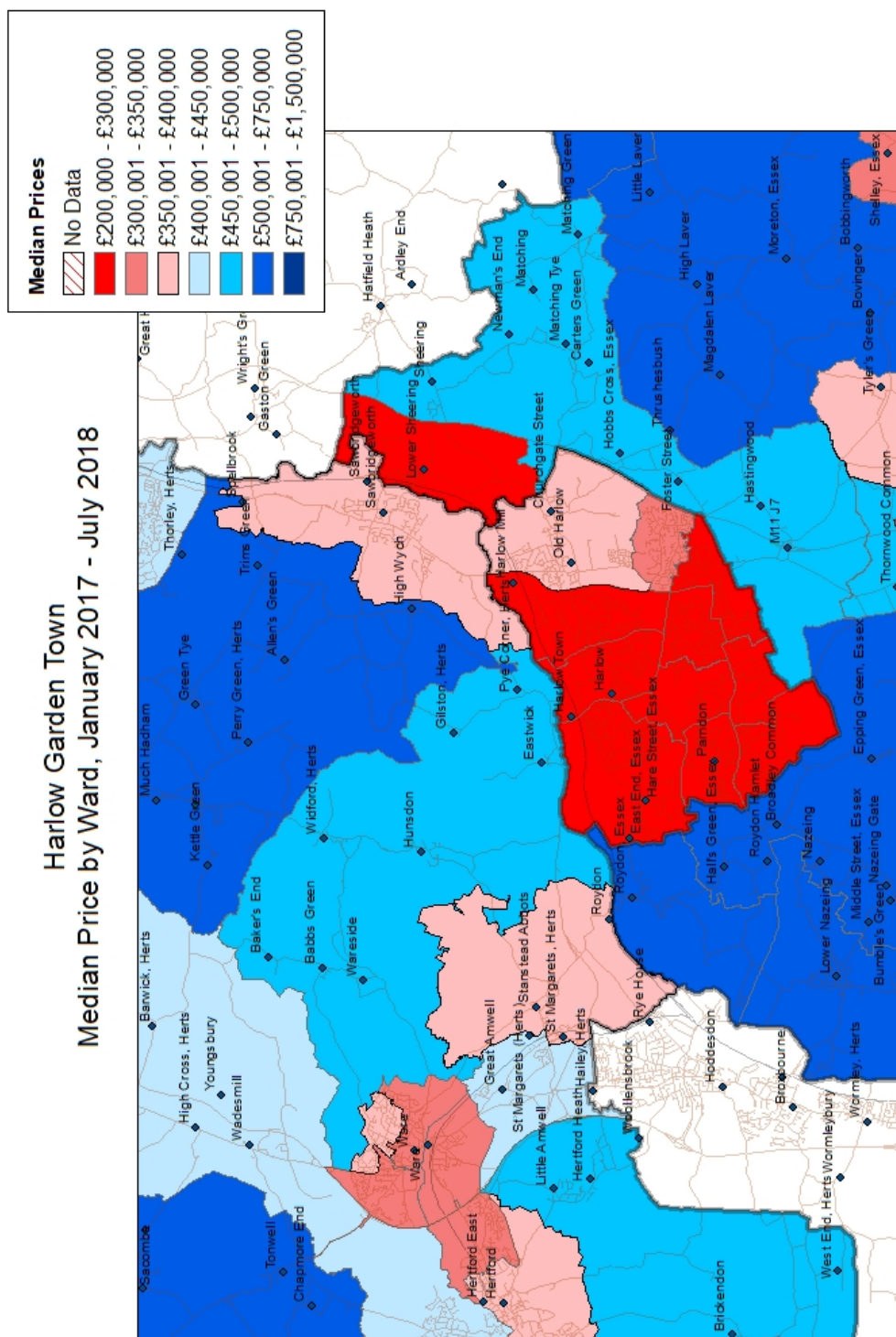
<sup>31</sup> Residential Property Forecasts. Savills. Autumn 2018.



- 4.21 As mentioned above, the derivation of these areas was questioned. These are based on the physical divisions (main roads) and nature of the housing estates and are a starting point for the assessment – rather than a conclusion of price areas. No alternative (or ‘better’) sub-areas were proposed.
- 4.22 The geographical differences in prices are illustrated in the following maps showing the median price by ward, the first being for all properties and the second just for newbuild.

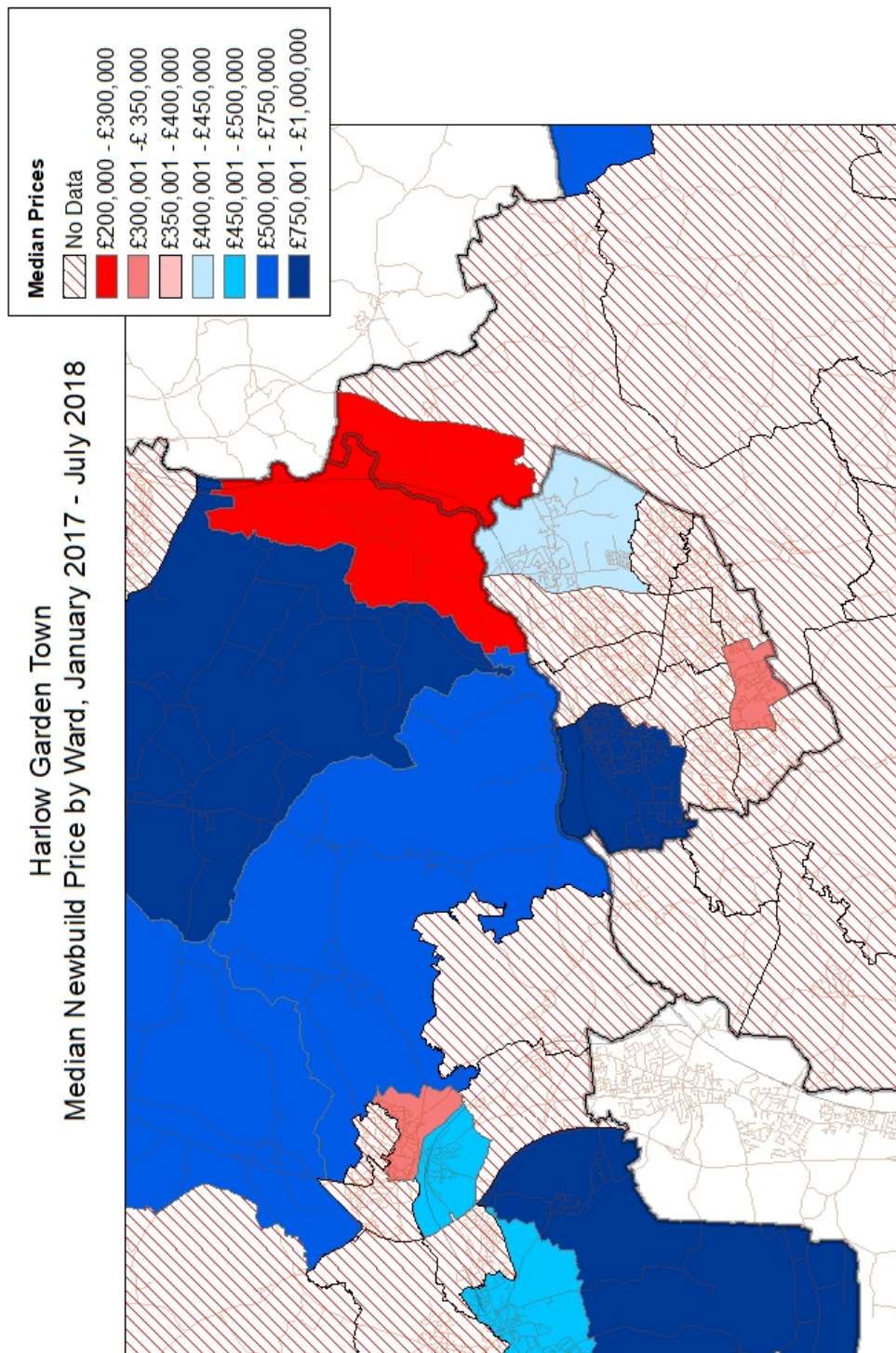


Harlow Garden Town  
Median Price by Ward, January 2017 - July 2018



This data covers transactions received at Land Registry from 1/1/17 to 17/7/2018  
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Figure 4.7 Median Prices – Newbuild Properties



This data covers transactions received at Land Registry from 1/1/17 to 17/7/2018  
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Source: HDH based on Land Registry Price Paid Data

- 4.23 The pattern of prices is influenced by the size of the units, with larger detached units prevailing in the more rural areas, and smaller terraces and flats in the urban areas. Further maps are included within **Appendix 2** that show the median prices by ward by house type (detached, semi-detached, terraced, flats).

#### *Newbuild Sales Prices*

- 4.24 This assessment is concerned with the viability of newbuild property so the key input for the appraisals are the prices of units on new developments. Recent newbuild sales prices from the Land Registry have been reviewed and a survey of new homes for sale during July 2018 carried out.
- 4.25 The Land Registry publishes data of all homes sold. Across the three Councils' areas, just over 1,350 newbuild houses are recorded as having been sold since the start of 2016<sup>32</sup>. Of these about 850 do not relate to very small sites, and are in the area outside of the M25 and relatively close to Harlow. One consultee<sup>33</sup> questioned why these settlements were chosen. In order to ensure that the assessment is well founded, and because there are relatively few newbuild sales in Harlow town itself, it is necessary to look more widely. It is acknowledged that this data does need to be treated with caution as it is presented by post town (as this is the basis on which it is available from the Land Registry). By looking more widely, a better understanding of Harlow's property market can be made.
- 4.26 Further the consultee questioned why the database includes dwellings in areas that are indicated on the map to have insufficient data. This is because data needs to be brought together through a range of sources, one of the steps is to 'geocode' the postcodes. When a new home is built it is ascribed a new postcode. It takes some time for these to be 'mapped' by the Ordnance Survey. This is inconvenient but is a factor of the data. This 'problem' related to 62 dwellings<sup>34</sup>. This highlights the reasons for considering a range of data sources. No single data source is perfect, so it is necessary to bring together a range of data before making a judgement as to value.
- 4.27 These transactions (as recorded by the Land Registry) are summarised below and are detailed in **Appendix 3**.

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<sup>32</sup> The Land Registry makes all transactions available as and when they are registered via the 'beta' format tool at <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads>. It does take some time for transactions to be registered – we estimate this to be about 4 to 6 months.

<sup>33</sup> Latton Priory

<sup>34</sup> The main gaps are mostly in CM16 4 (4) and CM17 0 (6) CM17 9 (15) and CM23 3 (12) SG13 (7) SG9 9 (28)

**Table 4.3 Distribution of Newbuild Sales from January 2016**

	Detached	Flats	Semi-detached	Terraced	All
BALLS PARK	5	0	3	15	23
BISHOP'S STORTFORD	1	68	4	7	80
EPPING	0	17	0	0	17
GILSTON	51	14	13	14	92
HARLOW	13	2	12	15	42
HASTINGWOOD	0	0	0	7	7
HERTFORD	0	170	6	1	177
HERTFORD HEATH	3	0	2	0	5
HIGH CROSS	29	0	1	0	30
MUCH HADHAM	0	0	1	2	3
NEWHALL	107	19	57	62	245
ROYDON	11	0	0	0	11
SAWBRIDGEWORTH	0	21	3	0	24
WALTHAM ABBEY	8	17	14	7	46
WARE	1	25	10	25	61
WIDFORD	1	0	0	0	1
<b>TOTAL</b>	<b>230</b>	<b>353</b>	<b>126</b>	<b>155</b>	<b>864</b>

Source: Land Registry and EPC Register (July 2018)

- 4.28 Each new dwelling sold requires an Energy Performance Certificate (EPC). This is a public document that can be viewed on the EPC Register<sup>35</sup>. The EPC contains the floor area (the Gross Internal Area – GIA) as well as a wide range of other information about the construction and energy performance of the building. This information is also included in **Appendix 3**. The price paid data from the Land Registry has been married with the homes' floor area from the EPC Register:

<sup>35</sup> <https://www.epcregister.com/>

<b>Table 4.4 Average Newbuild Sales from January 2016 by Type and Location (£)</b>					
Jan 2016 to July 2018	Detached	Flats	Semi-detached	Terraced	All
BALLS PARK	£739,000		£681,633	£639,307	<b>£666,500</b>
BISHOP'S STORTFORD	£1,450,000	£324,480	£445,995	£466,284	<b>£357,033</b>
EPPING		£433,235			<b>£433,235</b>
GILSTON	£633,396	£353,786	£459,142	£431,321	<b>£535,473</b>
HARLOW	£409,223	£299,995	£451,868	£359,063	<b>£398,291</b>
HASTINGWOOD				£416,071	<b>£416,071</b>
HERTFORD		£287,131	£524,958	£332,995	<b>£295,452</b>
HERTFORD HEATH	£786,333		£395,000		<b>£629,800</b>
HIGH CROSS	£655,990		£499,950		<b>£646,237</b>
MUCH HADHAM			£895,000	£815,000	<b>£841,667</b>
NEWHALL	£458,218	£276,314	£385,727	£378,417	<b>£407,051</b>
ROYDON	£992,909				<b>£992,909</b>
SAWBRIDGEWORTH		£271,029	£376,667		<b>£284,233</b>
WALTHAM ABBEY	£590,499	£329,156	£441,944	£336,424	<b>£410,040</b>
WARE	£500,000	£296,079	£518,397	£478,100	<b>£410,466</b>
WIDFORD	£773,000				<b>£773,000</b>
<b>ALL</b>	<b>£566,039</b>	<b>£305,196</b>	<b>£437,342</b>	<b>£431,760</b>	<b>£416,806</b>

Source: Land Registry and EPC Register (July 2018)

<b>Table 4.5 Average Newbuild Sales from January 2016 by Type and Location (£/m<sup>2</sup>)</b>					
Jan 2016 to July 2018	Detached	Flats	Semi-detached	Terraced	All
BALLS PARK	£5,948		£5,927	£6,077	<b>£6,029</b>
BISHOP'S STORTFORD	£4,899	£5,283	£3,718	£3,415	<b>£5,036</b>
EPPING		£5,664			<b>£5,664</b>
GILSTON	£4,286	£4,062	£3,536	£3,438	<b>£4,017</b>
HARLOW	£3,629	£4,260	£4,314	£4,591	<b>£4,198</b>
HASTINGWOOD				£4,419	<b>£4,419</b>
HERTFORD		£4,611	£4,605	£5,550	<b>£4,616</b>
HERTFORD HEATH	£6,238		£5,197		<b>£5,822</b>
HIGH CROSS	£4,310		£4,166		<b>£4,305</b>
MUCH HADHAM			£5,265	£4,690	<b>£4,881</b>
NEWHALL	£3,815	£3,962	£3,863	£3,653	<b>£3,796</b>
ROYDON	£3,973				<b>£3,973</b>
SAWBRIDGEWORTH		£3,252	£3,600		<b>£3,295</b>
WALTHAM ABBEY	£5,423	£5,423	£4,798	£4,500	<b>£5,092</b>
WARE	£3,788	£4,676	£4,706	£4,523	<b>£4,603</b>
WIDFORD	£3,827				<b>£3,827</b>
<b>ALL</b>	<b>£4,117</b>	<b>£4,695</b>	<b>£4,151</b>	<b>£4,187</b>	<b>£4,371</b>

Source: Land Registry and EPC Register (July 2018)

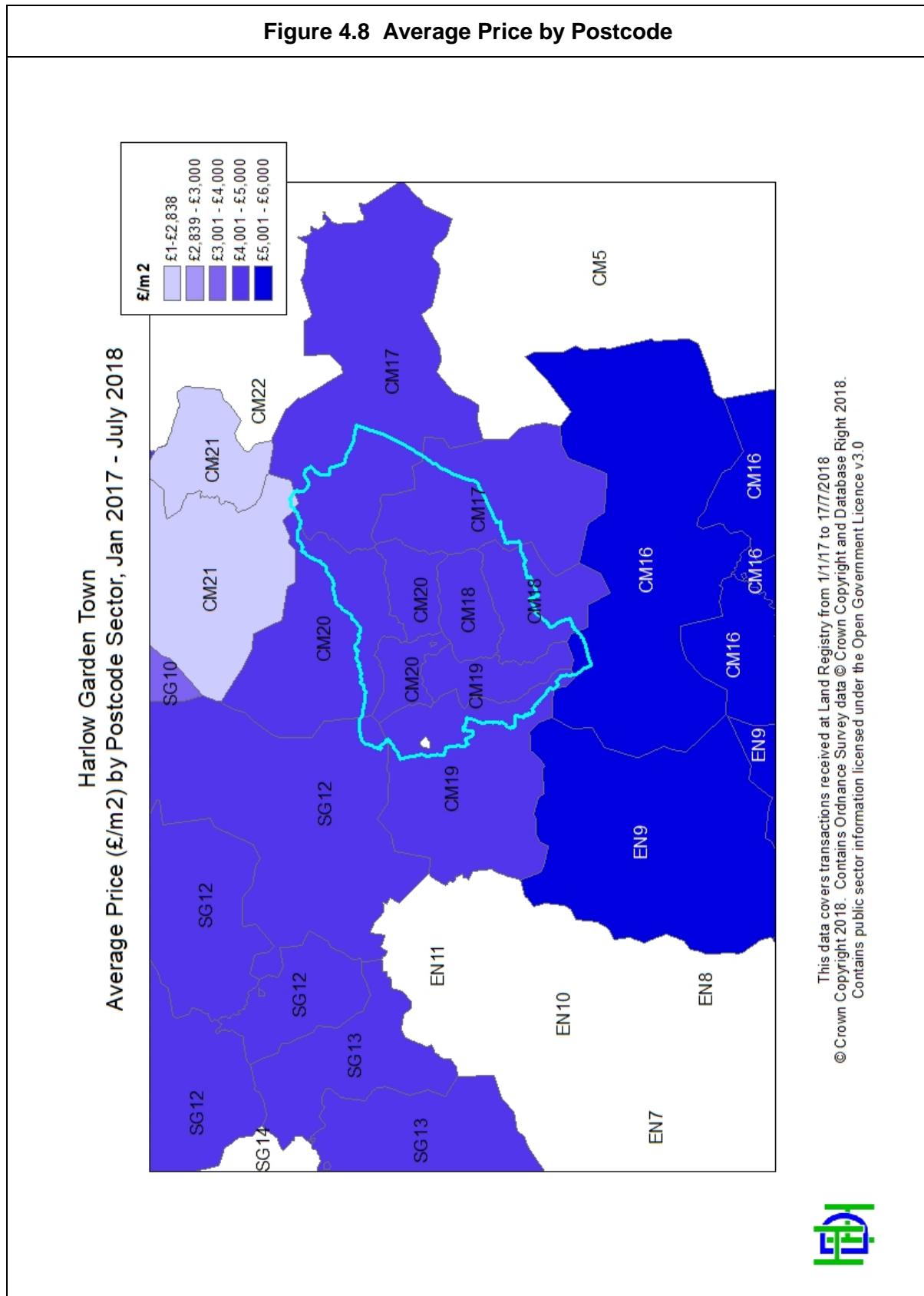
- 4.29 This data is disaggregated by year in **Appendix 4**. This data can also be considered by the smaller geography of the Harlow town postcodes:

**Table 4.6 Average Newbuild Sales from January 2016 by Type and Harlow Postcode Sector**

(All)		Detached	Flats	Semi-detached	Terraced	All
CM17	Count	115	21	66	70	272
	Average £	£456,211	£278,570	£399,793	£383,848	£410,184
	Average £/m <sup>2</sup>	£3,795	£3,990	£3,904	£3,737	£3,822
CM18	Count	5	0	3	14	22
	Average £	£376,987		£340,828	£349,353	£354,471
	Average £/m <sup>2</sup>	£3,779		£4,765	£4,620	£4,448
CM19	Count	11	0	0	0	11
	Average £	£992,909				£992,909
	Average £/m <sup>2</sup>	£3,973				£3,973
CM20	Count	51	14	13	14	92
	Average £	£633,396	£353,786	£459,142	£431,321	£535,473
	Average £/m <sup>2</sup>	£4,286	£4,062	£3,536	£3,438	£4,017
ALL	Count	182	35	82	98	397
	Average £	£536,123	£308,656	£407,045	£385,702	£452,277
	Average £/m <sup>2</sup>	£3,943	£4,019	£3,877	£3,821	£3,906

Source: Land Registry and EPC Register (July 2018)





Source: Land Registry and EPC Register (July 2018)

4.30 This data is also disaggregated by year in **Appendix 4**.



- 4.31 Across these settlements, from the start of 2016 the average price paid is about £3,900/m<sup>2</sup>, rising by 2018 to an average of over £4,350/m<sup>2</sup>. The figures for Gilston have increased a little from just under £4,000/m<sup>2</sup> in 2016 to just over £4,000/m<sup>2</sup> in 2018, and the figures for Harlow have increased very much more, from just under £3,330/m<sup>2</sup> in 2016 to just under £4,400/m<sup>2</sup> in 2018 in 2018.
- 4.32 Whilst there is a price variation based on geography, it is modest, the principle driver of the differences is the situation rather than the location of a site. That is to say, the value will be more strongly influenced by the specific site characteristics, the immediate neighbours and environment, rather than in which particular ward or postcode sector the scheme is located.

#### *Newbuild Asking Prices*

- 4.33 At the time of this assessment (July 2018) there were about 60 new houses and flats being advertised for sale in and around Harlow (although on some of these, construction had yet to start). The analysis of these shows that asking prices for newbuild homes vary, very considerably, starting at £195,000 and going up to just under £700,000. The average is just over £400,000. These are summarised in the following table and set out in detail in **Appendix 5**.

<b>Table 4.7 Newbuild Asking Prices. Average by Scheme (£/m<sup>2</sup>)</b>				
			Flats	Houses
<b>Harlow East</b>				
Bellway	Fusion	Spring St		£3,401
Lanes	Chantry Gardens	Churchgate Old St		£3,888
Purple bricks		Blackcap Drive		£4,009
Barratts	Gilden Park	Gilden Way		£4,183
Taylor Wimpey	Gilden Park	Gilden Way		£3,923
Persimmon	Gilden Park	Gilden Way		£5,034
<b>Harlow North East</b>				
Lanes New Homes	Edinburgh House	Edinburgh Way	£4,744	
<b>Harlow North West</b>				
Kier Homes	Ram Gorse Park	Elizabeth Way		£4,584
<b>Harlow Central</b>				
<b>Harlow South</b>				
Countryside	Atelier	Keaton Way		£4,322

Source: Market Survey (July 2018)

- 4.34 During the course of the research, sales offices and agents were contacted to enquire about the price achieved relative to the asking prices, and the incentives available to buyers. In most

cases the feedback was that the units were ‘realistically priced’ or that as the market is improving, demand is strong so that significant discounts are no longer offered. When pressed, it appeared that the discounts and incentives offered equate to about 2.5% of the asking prices. It would be prudent to assume that prices achieved, net of incentives offered to buyers, are 2.5% less than the above asking prices.

- 4.35 Through the consultation further information was submitted<sup>36</sup> that highlighted some inconsistencies in the above data and provided further evidence that is summarised as follows:

<b>Table 4.8 Average Asking Prices and Discounted Prices by Scheme (£/m<sup>2</sup>)</b>		
	Median	Average
<b>Persimmon Homes, Gilden Park</b>		
Asking Price	£4,446	£4,247
Less Discounts	£4,335	£4,140
<b>Edinburgh House, Edinburgh Way</b>		
Asking Price	£4,809	£4,879
Less Discounts	£4,688	£4,757
<b>Countryside - Atelier</b>		
Asking Price	£3,843	£4,171
Less Discounts	£3,747	£4,067
<b>Barratt Homes - Gilden Park</b>		
Asking Price	£3,928	£4,183
Less Discounts	£3,830	£4,078
<b>Kier Homes - Rams Gorse Park</b>		
Asking Price	£4,094	£4,163
Less Discounts	£3,991	£4,059
<b>Taylor Wimpey - Gilden Park</b>		
Asking Price	£3,869	£4,115
Less Discounts	£3,772	£4,013
<b>Bellway - Fusion, Newhall</b>		
Asking Price	£3,408	£3,374
Less Discounts	£3,495	£3,460

Source: Consultation Response (October 2018)

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<sup>36</sup> Water Lane – West Katherines

- 4.36 These figures are different, but support the general pattern of prices researched.
- 4.37 It was also suggested<sup>37</sup> that the requirement for Nationally Described Space Standards may have an impact on reducing these values. It is notable that most units are in fact larger than NDSS so this is unlikely to be the case.
- 4.38 A consultee<sup>38</sup> suggested that reference should be made to the *West Essex and East Hertfordshire SHMA* (ORS, July 2017) to ensure consistency. This document does not include an analysis of newbuild sales prices.

### Price Assumptions for Financial Appraisals

- 4.39 It is necessary to form a view about the appropriate prices. The preceding analysis does not reveal simple clear patterns with sharp boundaries. As mentioned previously, the principal drivers of price are the specifics of the scheme and its situation rather than the location. The four new Garden Communities are in different areas, and whilst these are different, at the time of this assessment, across the Garden Town there is relatively little variance between the different types of new housing. The above data does show some variance but there is not a consistent pattern across the different data sources analysed.
- 4.40 Based on the asking prices from active developments, and informed by the general pattern of all house prices across the assessment area, the prices put to the consultation were as follows. It is important to note that this is a broad brush, high level assessment to test the deliverability of the key Garden Town sites as required by the NPPF. The values between new developments and within new developments may vary considerably.

<b>Table 4.9 Pre-consultation Residential Price Assumptions (£/m<sup>2</sup>)</b>		
<b>Typology</b>	<b>Houses</b>	<b>Flats</b>
East of Harlow	£3,800	£4,000
Latton Priory	£4,500	£4,200
Water Lane	£3,900	£3,900
Gilston Area	£4,285	£4,020

Source: HDH (August 2018)

- 4.41 Consultees made the following points:
- a. In relation to Water Lane – West Katherines the following comment was made:
- The Consortium however agree that a blended value in the region of £360psf (£3,875/m<sup>2</sup>) market revenues ....*

<sup>37</sup> Water Lane – West Katherines

<sup>38</sup> Gilston – Village 7

This comment was linked to an uplifted build cost to allow for abnormal foundations and an allowance for strategic infrastructure – although for the purpose of this assessment these are not connected.

- b. The promoter of Gilston - Villages 1-6 confirmed that ‘the general inputs and assumptions are broadly in line with our own modelling’.
- c. The promoter of Latton Priory suggested greater weight should be given to the sales prices of existing properties when considering the values in this site. As set out in Figure 4.3 above, the newbuild market is distinctly different to the market for existing houses with the average price for newbuild homes being about double that for existing homes. It is believed that this produced well founded assumptions in this regard.

It was suggested that the values used are overstated by between £500/m<sup>2</sup> and £800/m<sup>2</sup>. This would suggest the analysis should be based on a value of about £3,900/m<sup>2</sup> for housing and £3,600/m<sup>2</sup> for flats. Whilst a range of comments were made about the presentation of the data that was put to the consultation, this promoter did not provide additional transactional (or any) evidence to support this suggestion.

4.42 Following the consultation the values have been updated.

<b>Table 4.10 Updated Residential Price Assumptions (£/m<sup>2</sup>)</b>		
<b>Typology</b>	<b>Houses</b>	<b>Flats</b>
East of Harlow	£3,800	£4,000
Latton Priory	£4,000	£3,700
Water Lane	£3,900	£3,900
Gilston Area	£4,285	£4,020

Source: HDH (December 2018)

- 4.43 It is necessary to consider whether the presence of affordable housing would have a discernible impact on sales prices. Affordable housing will be present on many of the sites whose selling prices have informed our analysis. Our view is that any impact can and should be minimised through an appropriate quality design solution.

#### *Ground Rents*

- 4.44 Over the last 10 or so years many new homes have been sold subject to a ground rent. Such ground rents have recently become a controversial and political topic. In this assessment, no allowance is made for residential ground rents.

#### **Affordable Housing**

- 4.45 The Councils have policies for the provision of affordable housing. In this assessment, it is assumed that such housing is constructed by the site developer and then sold to a Registered Provider (RP).

- 4.46 There are three main types of affordable housing: Social Rent, Affordable Rent and Intermediate Housing products for sale. The policy requirements tested in this assessment are:

East Herts District Plan - Pre-submission Consultation 2016

*Policy HOU3 Affordable Housing*

*Affordable housing provision will be expected on all development sites that propose development that falls within Class C3 (Dwelling Houses) as follows:*

- (a) up to 35% on sites proposing 10 or fewer gross additional dwellings, and where the dwellings would have a combined gross floor space greater than 1,000 square metres;*
- (b) up to 35% on sites proposing 11 to 14 gross additional dwellings;*
- (c) up to 40% on sites proposing 15 or more gross additional dwellings.*

Epping Forest Local Plan – Submission Version 2017

*Policy H 2 Affordable Housing*

*On development sites which provide for 11 or more homes, or residential floorspace of more than 1,000 sq m (combined gross internal area), the Council will require 40% of those homes to be for affordable housing provided on site. The mix of affordable homes will be required to reflect the latest available housing need.*

Harlow Local Development Plan, Pre-Submission Publication May 2018

*H8 Affordable Housing*

*Major residential development must provide at least 30% affordable housing. Reduction of this percentage will require an independent viability assessment.*

- 4.47 The following tenure mixes form the base appraisals.

<b>Table 4.11 Preferred Affordable Housing Tenure Mix</b>			
	Social Rent	Affordable Rent	Intermediate Housing
East Herts	-	84%	16%
Epping Forest <sup>b</sup>	-	81%	19%
Harlow <sup>c</sup>	-	85%	15%

Source: a – Affordable Housing & Lifetimes Homes SPD 2008, b – paragraph 3.16 Epping Forest Local Plan – Submission Version 2017, c – paragraph 14.37 Harlow Local Development Plan, Pre-Submission Publication May 2018

*Affordable Housing Values*

- 4.48 Prior to the 2015 Summer Budget, rents of affordable housing (both Affordable Rents and Social Rents) were generally increased by inflation (CPI) plus up to 1% each year. These provisions were to prevail until 2023. The result was that Housing Associations knew their rents would go up and those people and organisations who invest in such properties (directly or indirectly) knew that the rents were going up year on year. This made them a particularly attractive and secure form of investment or security for a loan.

- 4.49 In the 2015 Summer Budget it was announced that Social and Affordable Rents would be reduced by 1% per year for 4 years<sup>39</sup>. The effect of this is to reduce the value of affordable housing to rent. In October 2017 the Government announced that rents will rise by CPI +1% for five years from 2020, reversing this alteration.
- 4.50 It is necessary to consider the value of affordable housing in this context. From a valuation perspective, the value of affordable housing has been reconsidered from first principles.

#### *Social Rent*

- 4.51 The value of a rented property is a factor of the passing rent – although the condition and demand for the units also have a strong impact. Social Rents are set through a national formula that smooths the differences between individual properties and ensures properties of a similar type pay a similar rent:

<b>Table 4.12 Social Rent</b>				
	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
Per Week	£86	£104	£119	£129
Per Month	£373	£451	£515	£558
Per Year	£4,481	£5,410	£6,182	£6,701

Source: HCA Statistical Return (2017)

- 4.52 This assessment concerns only the value of newly built homes. There seems to be relatively little difference in the amounts paid by RPs for such units across the assessment area – and there is little such housing being developed. The value of Social Rents is assessed assuming 10% management costs, 4% voids and bad debts and 6% repairs. These are capitalised at 5%.

<b>Table 4.13 Capitalisation of Social Rents</b>			
	1 Bedroom	2 Bedrooms	3+ Bedrooms
Gross Rent	£4,481	£5,410	£6,182
Net Rent	£3,585	£4,328	£4,945
Value	£71,690	£86,552	£98,908
m <sup>2</sup>	50	70	84
£/m <sup>2</sup>	£1,434	£1,236	£1,177

Source: HDH (July 2018)

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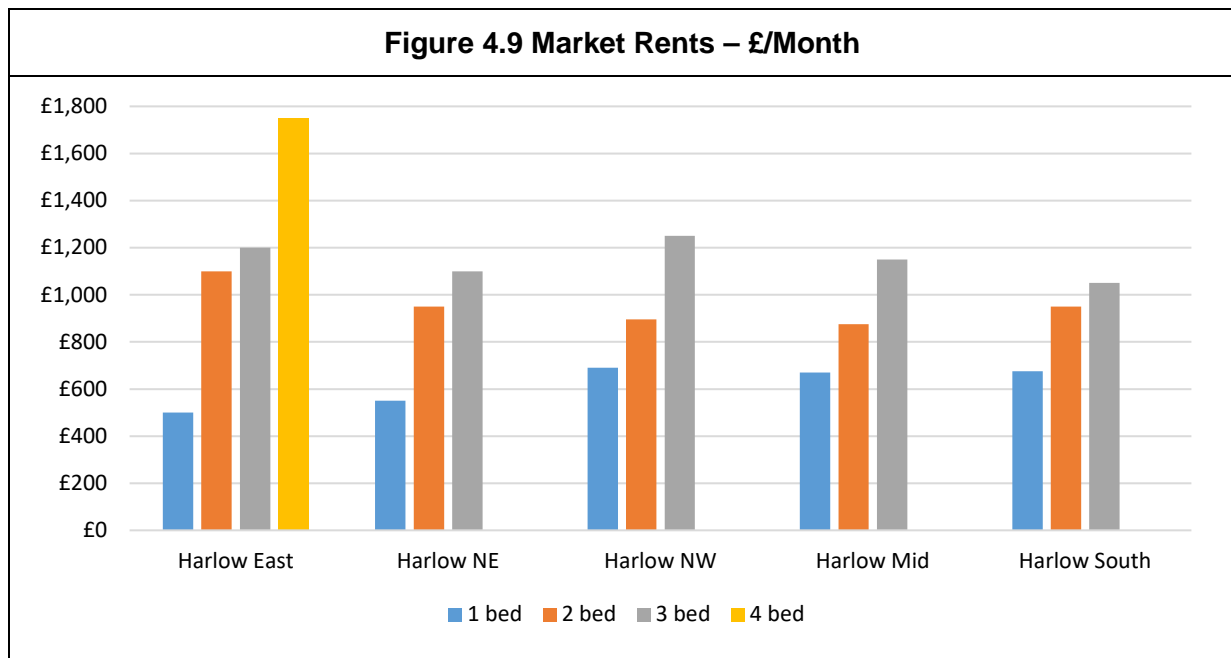
<sup>39</sup> We understand that the objective is to reduce the overall costs of Housing Benefit / Local Housing Allowance / Universal Credit to the Exchequer.

4.53 On this basis, a value of £1,285/m<sup>2</sup> across the assessment area would be assumed.

#### *Affordable Rent*

4.54 Under Affordable Rent, a maximum rent of no more than 80% of the open market rent, for that unit, can be charged. In the development of affordable housing for rent, the value of the units is, in large part, the worth of the income that the completed let unit will produce. This will depend on the amount of the rent and the cost of managing the property (letting, voids, rent collection, repairs etc.).

4.55 As a typical Affordable Rent unit will be new, it will command a premium rent that is a little higher than equivalent older private sector accommodation. In estimating the likely level of Affordable Rent, a survey of market rents across the area has been undertaken. There is relatively little variation in rents, except for the larger units.



Source: Market Survey (July 2018)

4.56 As part of the reforms to the social security system, housing benefit /local housing allowance is capped at the 3<sup>rd</sup> decile of open market rents for that property type, so in practice Affordable Rents are unlikely to be set above these levels. The cap is set by the Valuation Office Agency by Broad Rental Market Area (BRMA). The whole of the Harlow and Gilston Garden Town lies within the Harlow and Stortford BRMA.

**Table 4.14 BRMA Caps**

	£/week	£/month	£/year
Shared	£72.22	£312.95	£3,755.44
1 Bed	£137.32	£595.05	£7,140.64
2 Bed	£169.73	£735.50	£8,825.96
3 Bed	£204.05	£884.22	£10,610.60
4 Bed	£288.08	£1,248.35	£14,980.16

Source: VOA (July 2018)

- 4.57 These caps are a little different to the Affordable Rents being charged as reported in the most recent HCA data release.

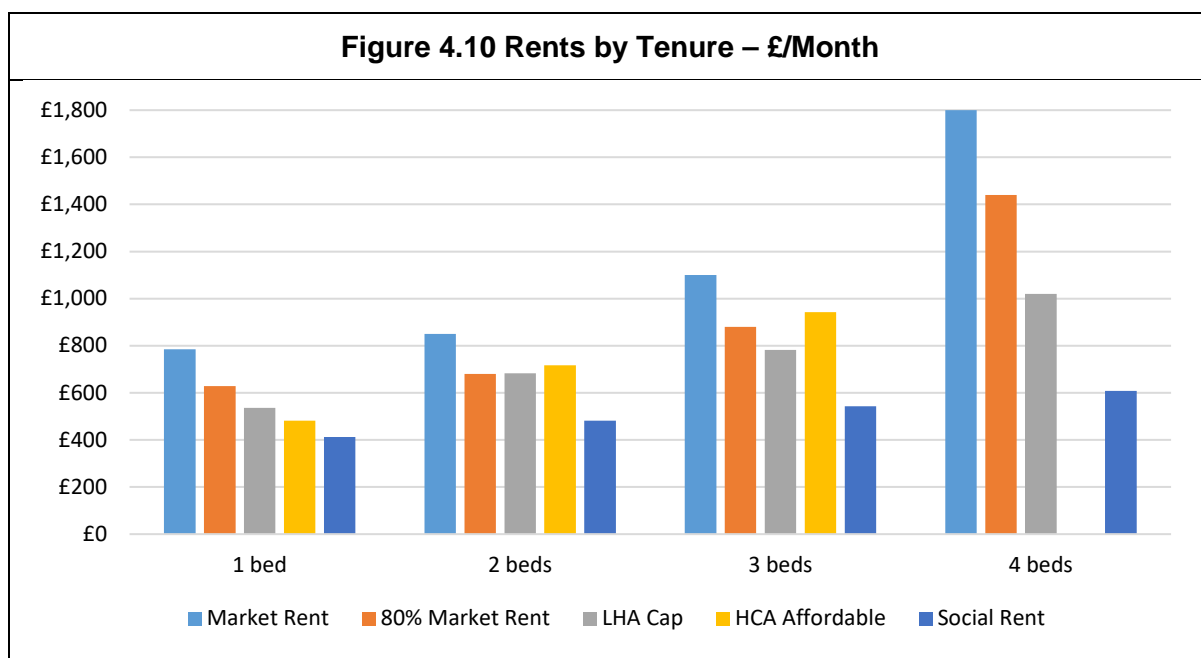
**Table 4.15 Affordable Rent**

	1 Bedroom	2 Bedrooms	3 Bedrooms
Per Week	£108	£142	£180
Per Month	£468	£616	£780
Per Year	£5,615	£7,397	£9,360

Source: HCA Statistical Return (2017)

- 4.58 In all cases the LHA cap is less than 80% of market rent, except in the case of two bedroom units where the cost is similar. The differences can be summarised as follows.

**Figure 4.10 Rents by Tenure – £/Month**



Source: Market Survey, HCA Statistical Return and VOA (February 2018)

- 4.59 Following discussion with the Councils it is assumed that Affordable Rent will be no more than the LHA cap. In calculating the value of Affordable Rents, an allowance for 10% management



costs, 4% voids and bad debts and 6% repairs is made, and the net rent capitalised the income at 5.5%. On this basis affordable rented property has the following worth.

<b>Table 4.16 Capitalisation of Affordable Rents</b>			
	1 Bedroom	2 Bedrooms	3+ Bedrooms
Gross Rent	£7,141	£8,826	£10,611
Net Rent	£5,712.51	£7,060.77	£8,488.48
Value	£103,864	£128,378	£154,336
m <sup>2</sup>	50	70	84
£/m <sup>2</sup>	£2,077	£1,834	£1,837

Source: HDH (July 2018)

4.60 Using this method to assess the value of affordable housing, under the Affordable Rent tenure, a value of £1,915/m<sup>2</sup> is derived. This is in the range of 45% to 50% of the value of market housing.

4.61 In relation to Water Lane – West Katherines the following comment was made:

*The Consortium however agree ... affordable revenues at 49%.*

4.62 A developer<sup>40</sup> suggested that a figure of 35% of market value should be used. This would give a value of about £1,330/m<sup>2</sup>, so close to the value of Social Rented housing. The reason given to justify this was that this would reflect a rent for the Affordable Rent units of no more than 80% of market rent. As set out above, it has been assumed that Affordable Rent will be no more than the LHA cap – which is less than 80% of market rent, consequently no further adjustment is made.

#### *Intermediate Products for Sale*

4.63 Intermediate products for sale include shared ownership and shared equity products<sup>41</sup>. The market for these is very difficult at present and we have found little evidence of the availability of such products in the assessment area. We have assumed a value of 65% of open market value for these units.

4.64 These values were based on purchasers buying an initial 50% share of a property with a 2.75%<sup>42</sup> per annum rent payable on the equity retained. The rental income is capitalised at 5.5% having made a 10% management allowance.

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<sup>40</sup> West Sumners

<sup>41</sup> For the purpose of this assessment it is assumed that the 'affordable home ownership' products, as referred to in paragraph 64 of the 2019 NPPF fall into this definition,

<sup>42</sup> A rent of up to 3% may be charged – although we understand that in this area 2.75% is more normal.

- 4.65 The following table shows 'typical' values (for illustrative purposes) for shared ownership housing at a range of proportions sold:

<b>Table 4.17 Value of Shared Ownership Housing (3 bedroom) at 30% to 80% of Proportion Sold</b>										
Market Value			% Sold		Rent			Value		
m <sup>2</sup>	£/m <sup>2</sup>	£	%	£	%	£/year	£	£	£/m <sup>2</sup>	% OMV
84	4,000	336,000	30%	100,800	2.75%	6,468	116,424	217,224	2,586	64.65%
84	4,000	336,000	40%	134,400	2.75%	5,544	99,792	234,192	2,788	69.70%
84	4,000	336,000	50%	168,000	2.75%	4,620	83,160	251,160	2,990	74.75%
84	4,000	336,000	60%	201,600	2.75%	3,696	66,528	268,128	3,192	79.80%
84	4,000	336,000	70%	235,200	2.75%	2,772	49,896	285,096	3,394	84.85%
84	4,000	336,000	80%	268,800	2.75%	1,848	33,264	302,064	3,596	89.90%

Source: HDH (July 2018)

- 4.66 It can be seen that the assumption is cautious and takes into account that the portions sold may be less than 50%.
- 4.67 The 2019 NPPF sets out a requirement for low-cost home ownership as part of the affordable housing mix. This is assumed to apply. Bearing in mind the Starter Home cap of £250,000 outside London, no change is made in this regard.
- 4.68 One consultee<sup>43</sup> suggested that an assumption of 55% to 60% of market value may be more appropriate in the current market although no reason was given. No change has been made in this regard as the assumption is considered cautious.

#### *Grant Funding*

- 4.69 It is assumed that grant is not available.

#### **Older People's Housing**

- 4.70 There is an established need for both market and affordable older people's housing. The Councils have therefore asked that this assessment should test the viability of providing affordable housing within the sites. Housing for older people is generally a growing sector due to the demographic changes and the ageing population. The sector brings forward two main types of product.

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<sup>43</sup> Water Lane – West Katherines

- 4.71 Sheltered or retirement housing is self-contained housing, normally developed as flats and other relatively small units. Where these schemes are brought forward by the private sector there are normally warden services and occasionally non-care support services (laundry, cleaning etc.) but not care services.
- 4.72 Extracare housing is sometimes referred to as very sheltered housing or housing with care. It is self-contained housing that has been specifically designed to suit people with long-term conditions or disabilities that make living in their own home difficult, but who do not want to move into a care home. Schemes can be brought forward in the open market or in the social sector (normally with the help of subsidy). Most residents are older people, but this type of housing is becoming popular with people with disabilities regardless of their age as it is seen as a long-term housing solution. Extracare housing residents still have access to means-tested local authority services.
- 4.73 The Retirement Housing Group (RHG) is a trade group representing private sector developers and operators of retirement, care and extracare homes. They have set out a case that sheltered housing and extracare housing should be tested separately. In line with the RHG representations it is assumed the price of a 1 bed sheltered property is about 75% of the price of existing 3 bed semi-detached houses and a 2 bed sheltered property is about equal to the price of an existing 3 bed semi-detached house. In addition, it is assumed extracare housing is 25% more expensive than sheltered.
- 4.74 A typical price of a 3 bed semi-detached home of £360,000 has been assumed. On this basis it is assumed retirement and extracare housing has the following worth:

<b>Table 4.18 Worth of Retirement and Extracare</b>			
	Area (m <sup>2</sup> )	£	£/m <sup>2</sup>
3 bed Semi-detached		360,000	
1 bed Sheltered	50	270,000	5,400
2 bed Sheltered	75	360,000	4,800
1 bed Extracare	65	337,500	5,192
2 bed Extracare	80	450,000	5,625

Source: HDH (July 2018)

- 4.75 There are few retirement schemes being marketed or recently sold in Harlow at the time of this assessment. In the wider locality, the Miami House scheme developed by McCarthy & Stone in Chelmsford is now marketing 1 bedroom units from £350,000 and 2 bedroom units from £450,000. Their Pegs Lane scheme in Hertford is marketing 1 bedroom units from £335,000 and 2 bedroom units from £460,000. The Churchill Living scheme, in Waltham Abbey, is marketing 2 bedroom units from £385,950, with 1 bedroom units in Chelmsford for £298,950, suggesting the values in the table above may be rather low.
- 4.76 Taking into account the above, the following values are used in the appraisals:

Table 4.19 Worth of Retirement and Extracare	
All Areas	£/m <sup>2</sup>
Sheltered	5,500
Extracare	5,500

Source: HDH (July 2018)

- 4.77 One consultee<sup>44</sup> suggested that more detailed local analysis should be made into local schemes. All the local schemes on which there is publicly available information have been researched as set out above.
- 4.78 In addition to the above, an allowance of £3,850/unit could be made for ground rent.
- 4.79 The units where provided as affordable housing have also been considered. It has not been possible to find any direct comparable where housing associations have purchased social units in a market led extracare scheme. Private sector developers have been consulted. They have indicated that whilst they have never disposed of any units in this way, they would expect the value to be in line with other affordable housing – however they stressed that the buyer (be that the local authority or housing association) would need to undertake to meet the full service and care charges.

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<sup>44</sup> Latton Priory

## 5. Non-Residential Market

- 5.1 This chapter sets out an assessment of the markets for non-residential property, providing a basis for the assumptions of prices to be used in financial appraisals for the sites tested in the assessment.
- 5.2 The starting point for this part of this assessment is the Councils' existing evidence. The following assumptions were used:

Table 5.1 Unadjusted Non-residential Values			
	Rent	Yield	£/m <sup>2</sup>
<b>East Hertfordshire - 2015</b>			
Business Park	£205	7.00%	£2,929
Warehousing	£75	5.25%	£1,429
Town centre comparison retail	£210	6.50%	£3,231
Out of town comparison retail	£210	7.00%	£3,000
Retail convenience	£210	5.00%	£4,200
<b>Epping Forest - 2017</b>			
Shops / premises	£180	6.25%	£2,880
Retail warehousing	£170	6.25%	£2,720
Supermarkets	£200	6.25%	£3,200
Industrial Warehousing	£70	6.25%	£1,120
Offices	£175	6.25%	£2,800
<b>Harlow - 2018</b>			
Offices	£172	6.80%	£2,533
Industrial Warehousing	£108	6.80%	£1,583
Large retail	£194	6.80%	£2,849

Source: EHDC Plan Viability, Affordable Housing and CIL Study. PBA, 1st October 2015. EFDC Stage 2: Update Assessment of the Viability of Affordable Housing, CIL and the Local Plan. Dixon Searle, November 2017. Local Plan Viability Assessment, Affordable Housing and CIL Review. BNP Paribas, March 2018.

- 5.3 There is no need to consider all types of development in all situations – and certainly no point in testing the types of scheme that are unlikely to come forward as part of the Garden Town proposals. In this assessment we have considered the larger format office and industrial uses. Whilst the proposals do include elements of retail, these are small scale so are not examined specifically.
- 5.4 In Harlow, market conditions will broadly reflect a combination of national economic circumstances and local supply and demand factors. However even within a town there will be particular localities, and ultimately site-specific factors, that generate different values and costs.

## National Overview

- 5.5 The various non-residential markets in Harlow reflect national trends. An improved sentiment has been reported in the press:

*The Q2 2018 RICS UK Commercial Property Market survey results show the downturn across the retail sector intensifying, with stores in secondary locations displaying particularly negative rental and capital value projections. This remains in contrast with the performance of the industrial sector, which continues to attract solid demand from both occupiers and investors.*

*Focussing first on the occupier market, tenant demand declined marginally at a headline level during Q2, with a net balance reading of -8% the weakest since 2012. That said, the retail sector was the only area of the market to post an outright decline, as 53% more respondents noted a fall in demand over the period. For offices, demand held broadly steady following a slight increase in Q1. Meanwhile, tenant enquiries continued to rise in the industrial sector, and have now increased in twenty three successive reports.*

*Set against the steep decline in demand, availability of retail space rose sharply over the quarter. In fact, 46% more respondents noted an increase, representing the broadest pick-up reported going back to 2009. Given this, the value of inducement packages on offer to prospective tenants was also pushed higher. By way of contrast, availability of leasable space in the industrial sector fell once again, prompting landlords to further trim incentive packages. Availability in the office sector was more or less unchanged for the seventh quarter in a row, albeit inducement packages have picked-up consistently over this period.*

*In terms of the all-property average, near term rental expectations eased, posting a net balance of -2% (+3% previously) and pointing to virtually no change in headline rents over the coming months. Again, this average reading is being depressed by negativity in the retail sector, where the net balance came in at -52%. Rental growth projections remain elevated for industrial space (net balance +35%), but rather flat for offices (net balance +5%)...*

*... Views have become increasingly mixed regarding the current stage of the property cycle. Indeed, 26% of respondents across the UK (ex London) now sense the market may be in the early stages of a downturn, up from 14% in Q1. Although 39% believe the market is still in some stage of the growth phase, this has come down 52% last quarter. In London, a clear majority of 71% of contributors now believe the market is in a downturn (up from 52% previously). Having said that, the outlook is not negative for all sectors across the capital. Prices are still expected to rise for prime and secondary industrial assets, and for prime offices.*

*RICS – Q2 2018: UK Commercial Property Market Survey*

- 5.6 This chapter sets out a brief assessment of the markets for non-residential property, providing a basis for the assumptions of prices to be used in financial appraisals.

## Harlow and Gilston Garden Towns Non-Residential Market

- 5.7 The main employment areas within Harlow are the Pinnacles Estate to the east and the Templefields estate to the north west. In addition to these, the London Road Enterprise Zone is expanding. There are several smaller employment areas throughout the town, but these are less important for this assessment. An important aspect of the employment space in Harlow is that that is in and around the town centre, these are not considered in this assessment. Harlow is becoming a centre for Life Science, MedTech and digital industries. Raytheon, GlaxoSmithKline and Nortel all have sites, and Public Health England recently acquired a significant site.

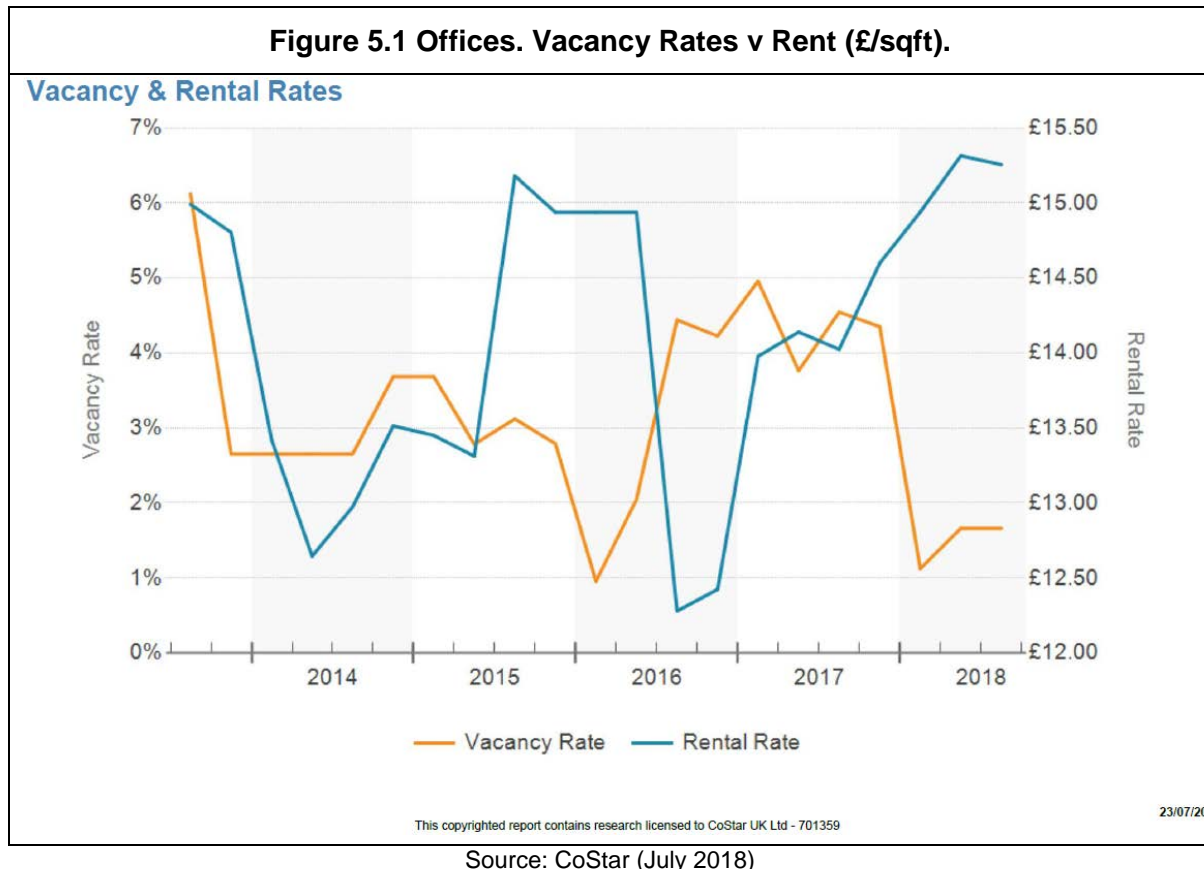
- 5.8 The local markets are driven by local factors – however the influence of the wider southeast and London underpins the market. Harlow is not a large regional centre but it is the principal town and is a significant local centre. In recent years the majority of new development has been user led, however there is a modest increase in that being brought forward by speculative developers.
- 5.9 The market is described in some detail in the Harlow Employment Land Review<sup>45</sup> (ELR) so that will not be repeated in detail here.
- 5.10 This assessment is concerned with new property that is likely to be purpose built. There is little evidence of a significant variance in price for newer premises more suited to modern business across the town, although very local factors (such as the access to transport network) is reported to be important.
- 5.11 Various sources of market information have been analysed, the principal sources being the local agents, research published by national agents, and through the Estates Gazette's Property Link website (a commercial equivalent to Rightmove.co.uk). In addition, information from CoStar (a property industry intelligence subscription service) has been used. Clearly much of this commercial space is 'second-hand' and not of the configuration, type and condition of new space that may come forward in the future, so is likely to command a lower rent than new property in a convenient, well accessed location with car parking and that is well suited to the modern business environment.
- 5.12 Data from across East Hertfordshire, Epping Forest and Harlow has been looked at as has data from Broxbourne and Stevenage as these are broadly similar market areas. **Appendix 6** includes market data from CoStar.

### Offices

- 5.13 CoStar data shows a decline in vacancy rates and an increase in rents in the office sector over the last five years:

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<sup>45</sup> Harlow Employment Land Review Final Report, PBA January 2013



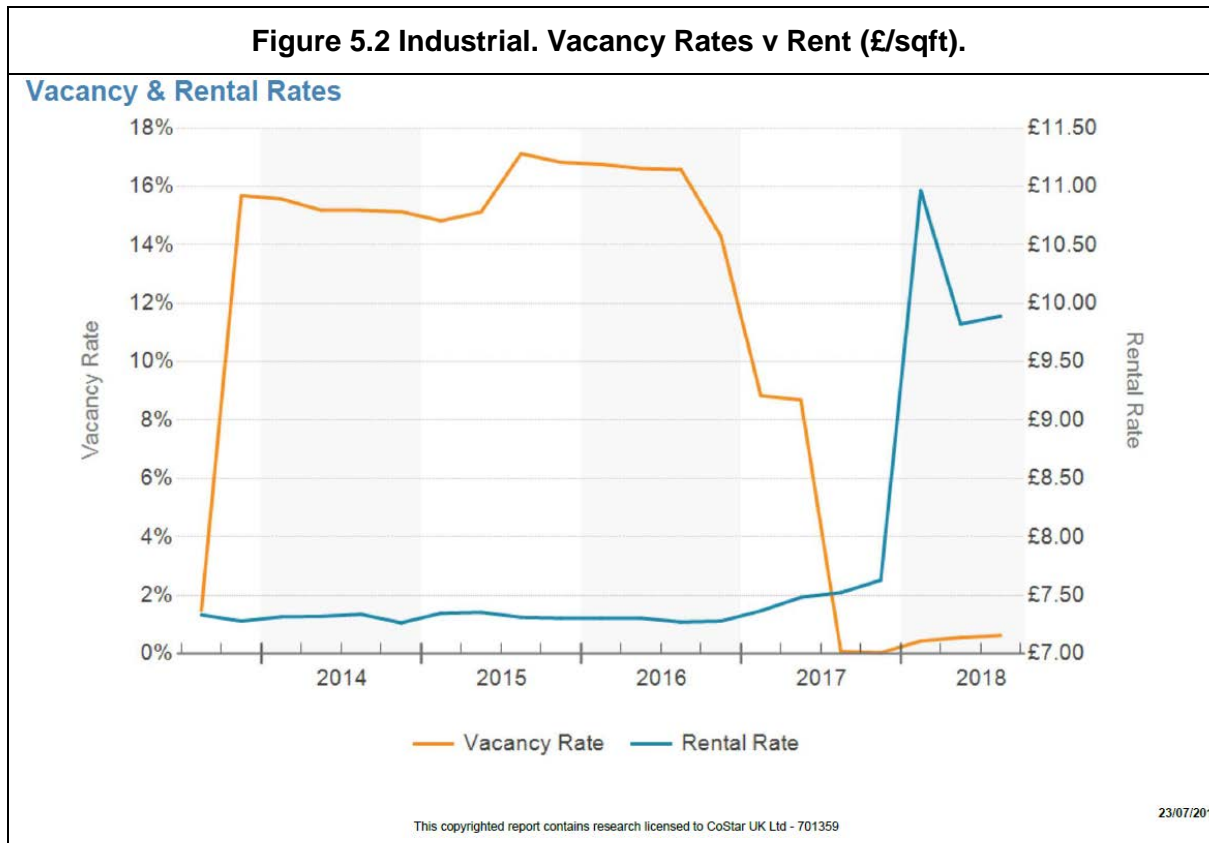
- 5.14 There is a wide range of offices being marketed in the area and nearby at the time of this assessment, although much of this is very different to the type that is likely to come forward in the future. Of the new space, the highest rents are around £320/m<sup>2</sup>/year (£29.67/sqft/year), although good quality new offices would generally be in the region of £155/m<sup>2</sup>/year (£14.5/sqft/year). CoStar reports Net Effective Rents of a similar amount and yields of around 5.5%.
- 5.15 On this basis new office development were initially assumed to have a value of £2,800/m<sup>2</sup>.
- 5.16 One of the consultees<sup>46</sup> suggested that a yield of 6.8% would be more appropriate and a value of £2,500/m<sup>2</sup> more appropriate, although no supporting evidence was provided.

### Industrial and Distribution

- 5.17 CoStar data also shows a decline in vacancy rates and an increase in rents over the last five years in the industrial sector:

<sup>46</sup> Water Lane – West Katherines





Source: CoStar (July 2018)

- 5.18 The highest rents are around £170/m<sup>2</sup>/year (£15.85/sqft/year), although figures around £107/m<sup>2</sup> (£10/sqft) are more typical. Those units closer to the highways network have the best rents. CoStar reports yields of around 6.5% or so.
- 5.19 On this basis new industrial and distribution units were initially assumed to have a value of £1,650/m<sup>2</sup>.
- 5.20 One of the consultees<sup>47</sup> suggested that a yield of 6.8% would be more appropriate and a value of £1,583/m<sup>2</sup> more appropriate, although no supporting evidence was provided.

<sup>47</sup> Water Lane – West Katherines



## 6. Land Values

- 6.1 Chapters 2 and 3 set out the methodology used in this assessment to assess viability. An important element of the assessment is the value of the land. The worth of the land before consideration of any increase in value, from a use that may be permitted through a planning consent, is the Existing Use Value (EUV). This is the starting point for the assessment.
- 6.2 In this chapter, the values of different types of land are considered. The value of land relates closely to the use to which it can be put and will range considerably from site to site. As this is a high-level assessment, the three main uses, being agricultural, residential and industrial have been researched. The amount of uplift that may be required to ensure that land will come forward and be released for development has then been considered.
- 6.3 In this context it important to note that the PPG says (at 10-016-20180724) that the *'Benchmark land value should: be based upon existing use value, allow for a premium to landowners ... be informed by market evidence including current uses, costs and values wherever possible....'*. It is therefore necessary to consider the Existing Use Value (EUV) as set out in Chapters 2 and 3 above as a starting point.

### Existing Use Values

- 6.4 To assess development viability, it is necessary to analyse Existing and Alternative Use Values. EUV refers to the value of the land in its current use before planning consent is granted, for example, as agricultural land. AUV refers to any other potential use for the site. For example, a brownfield site may have an alternative use as industrial land.
- 6.5 It is important to fully appreciate that land value should reflect the current and emerging policy requirements and planning obligations.
- 6.6 The Residual Value for a particular scheme needs to be compared with the EUV. If the Residual Value does not exceed the EUV, then the development is not viable; if there is a surplus (i.e. profit) over and above the 'normal' developer's profit having paid for the land, then there is scope to make developer contributions.
- 6.7 The 'model' approach is outlined below:
- i. For sites previously in agricultural use, then agricultural land represents the EUV. This is assumed to apply on sites 0.5ha or more.
  - ii. For paddock and garden land on the edge of or in a smaller settlement a 'paddock' value is adopted. This is assumed to apply on sites of less than 0.5ha.
  - iii. Where the development is on brownfield land, an industrial value is assumed.

## Residential Land

- 6.8 In May 2018, DCLG published *Land value estimates for policy appraisal*<sup>48</sup>. This sets out land values as at May 2017 and was prepared by the Valuation Office Agency (VOA)
- |                       |               |
|-----------------------|---------------|
| a. East Hertfordshire | £7,715,000/ha |
| b. Harlow             | £4,010,000    |
| c. Epping Forest      | £7,565,000.   |
- 6.9 These figures assume nil affordable housing. As stressed in the paper this is a hypothetical situation and *‘the figures on this basis, therefore, may be significantly higher than could be reasonably obtained in the actual market’.*
- 6.10 The VOA assumed that each site is 1 hectare in area, of regular shape, with services provided up to the boundary, without contamination or abnormal development costs, not in an underground mining area, with road frontage, without risk of flooding, with planning permission granted and that no grant funding is available; the site will have a net developable area equal to 80% of the gross area. For those local authorities outside London, the hypothetical scheme is for a development of 35 two storeys, 2/3/4 bed dwellings with a total floor area of 3,150 square metres.
- 6.11 Recent transactions based on planning consents over the last few years and price paid information from the Land Registry have been researched and are set out in **Appendix 7** and summarised in the following table.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/710539/Land\\_Values\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710539/Land_Values_2017.pdf)

<b>Table 6.1 Recent Sales of Development Land</b>					
Scheme	Area (ha)	Units	Aff %	Price Paid /ha	Price Paid / Unit
<b>Harlow</b>					
Edinburgh Gate Car Park, Edinburgh Gate	2.3	376	?	£9,239,130	£56,516
Service Industry Bays, The Stow	0.5	98	14%	£2,600,000	£13,265
Parcel 1A, Phase 2a, Newhall	4.03	170	15%	£4,681,867	£110,988
1 to 7 Burnt Mill	0.91	142	8%	£4,615,385	£29,577
Swallow Churchgate Hotel, Churchgate Street	1.19	26	35%	£1,974,790	£90,385
YWCA Hostel - The Angle, Fourth Avenue	0.36	69	9%	£208,333	£1,087
Harlow Rugby Football Club, Elizabeth Way	3.6	125	32%	£3,111,111	£89,600
<b>Epping Forest</b>					
Chimes Garden Centre, Old Nazeing Road, Nazeing	1.0	17	0%	£700,000	£41,176
Brent House Farm, Harlow Common, North Weald	1.34	19	11%	£1,619,403	£114,211
Norton Heath Riding Centre, Fingrith Hall Lane, High Ongar, Ongar	2.2	30	50%	£1,681,818	£123,333
Allotments rear of 8 To 22 Institute Road, Coopersale, Epping	0.56	18	33%	£4,598,214	£143,056
Stoneshot Farm, Hoe Lane, Nazeing	1.3	17	59%	£380,769	£29,118
Tottenham Hotspur Training Ground, Luxborough Lane Chigwell	10.0	60	0%	£490,000	£81,667
Chigwell County Primary School, High Road, Chigwell	4.76	59	0%	£25,210	£2,034
Chigwell Grange, High Road, Chigwell	2.98	43	0%	£6,302,013	£436,744
Netherhouse Farm, Sewardstone Road, Waltham Abbey	1.1	16	50%	£4,545,455	£312,500
Land at Barnfield, Epping Road, Roydon	4.05	23	48%	£802,469	£141,304
Fyfield Business and Research Park, Fyfield Road, Chipping Ongar	9.25	105	42%	£992,973	£87,476
<b>East Hertfordshire</b>					
356 – 364 Ware Road, Hertford	0.4	34	0%	£2,700,000	£31,765
Rye Street/Farnham Road, Bishops Stortford	1.45	32	0%	£1,310,345	£59,375

Source: Land Registry and the Councils (September 2018)

6.12 These values are on a whole site (gross area) basis and range considerably.

<b>Table 6.2 Recent Sales of Development Land – Summary</b>		
ALL SITES		
	£/ha	£/unit
Minimum	£25,210	£1,087
Average	£2,609,675	£99,759
Median	£1,974,790	£84,571
Maximum	£9,239,130	£436,744

Source: Land Registry and the Councils

- 6.13 Having disregarded non-policy compliant schemes (as per PPG paragraph 10-015-20180724) the data can be summarised as follows.

<b>Table 6.3 Recent Sales of Development Land – Summary</b>		
POLICY COMPLIANT SITES ONLY		
	£/ha	£/unit
Minimum	£380,769	£29,118
Average	£1,729,712	£130,686
Median	£1,337,396	£106,859
Maximum	£4,545,455	£312,500

Source: Land Registry and the Councils

- 6.14 In this regard, we have a caveat and that is in relation to large sites. Large sites have their own characteristics and are often subject to significant infrastructure costs and amounts of open space which result in lower values.
- 6.15 It is necessary to make an assumption about the value of residential land. A value of £1,300,000/ha is taken as an average value for residential land. This is around the median value having discounted the outliers values as per paragraph 10-011-20180724 of the updated PPG. This figure would not apply to very large-scale sites which are not represented in the above data.
- 6.16 A consultee<sup>49</sup> suggested that £1,300,000 was understated – but no indication was given as to by how much or based on what evidence. It was suggested that some of the transactions referred to were historic. That is accepted, although the nature of the exercise and the relative scarcity of data makes this inevitable.

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<sup>49</sup> Water Lane – West Katherines

## Industrial Land

- 6.17 *Land value estimates for policy appraisal* does not provide a specific figure for Harlow, rather provides the following figures for places in the general locality:

Table 6.4 Industrial Land Values (£/ha)	
Hemel Hempstead	£1,800,000
Ipswich	£605,000
Redbridge	£3,000,000

Source: Land value estimates for policy appraisal, MHCLG (May 2018)

- 6.18 We have sought further evidence as to industrial values in the area and there is very little available.
- 6.19 CoStar (a property market data service) includes details of industrial land. These are summarised in **Appendix 8**. The average is £1,329,000/ha (£537,000/acre) and the median is £914,000/ha (£370,000/acre).
- 6.20 In this assessment, a value of £1,000,000/ha is assumed.

## Agricultural and Paddocks

- 6.21 *Land value estimates for policy appraisal* provides a figure of £23,500/ha for Hertfordshire and £22,500/ha for the wider South East. The *RICS/RAU Rural Land Market Survey* reports agricultural land values. The most recent report<sup>50</sup> suggests values of £23,500/ha (£9,500/acre) for arable land and £17,300/ha (£7,000/acre) for pasture.
- 6.22 A figure of £20,000/ha was suggested during the consultation process, but this has been revised up to £22,500/ha which is assumed to apply here.
- 6.23 In this regard a consultee<sup>51</sup> said:
- The indicated value of £20,000 / ha for agricultural land appears low. We would expect a value of c.£29,600/ha (£12,000/acre). We would also note that Gilston includes a number of residential and commercial assets which command greater value and as such will tend to mean that the overall average land value is towards the upper end of the range.*
- 6.24 Whilst we agree that other uses will tend to lift the base agricultural uses, the assumption for agricultural land is supported by the wider evidence.

<sup>50</sup> <http://www.rics.org/Global/RICS%20RAU%20Rural%20Land%20Market%20Survey%20H2%202015.pdf>

<sup>51</sup> Gilston - Villages 1-6

- 6.25 It was highlighted<sup>52</sup> that parts (about 19ha) of the Water Lane – West Katherines site is currently in a glasshouse use. It was suggested that £1,700,000/ha was an appropriate EUV. The value of glasshouse sites depends very much on the specific circumstances of the buildings. A modern, relatively new set-up with automation, will command a price that is very much higher than an older facility that is not suited to modern production methods.
- 6.26 A typical glasshouse of more than 2 ha for food production would cost around £500,000/ha; whilst a similar area for young plant production may cost over £1,000,000/ha to build. Most agricultural business would write the value down over time – although the costs can vary widely depending on the specifics. No evidence was provided to support a figure of £1,700,000. In this assessment glasshouses have been treated as having the same value as Industrial Land.

### Benchmark Land Values

- 6.27 The Residual Value from the appraisals are compared with the EUV set out above in order to form a view about each of the sites' viability. It does not automatically follow that, if the Residual Value produces a surplus over the EUV benchmark, the site is viable. In considering the BLV, regard has been had to the PPG:

#### ***What factors should be considered to establish benchmark land value?***

*Benchmark land value should:*

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

*In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.*

*Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the*

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<sup>52</sup> Water Lane, West Katherines



*plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).*

PPG 10-014-20180724

- 6.28 In line with the above the starting point is the EUV. In this case the majority of the sites are in agricultural use so agricultural use is taken as the EUV. The exception is the case of Water Lane – West Katherines. Part of Water Lane – West Katherines is under glasshouses (19ha / 30%) and the remainder (that will be subject to development) is in agricultural uses (44ha / 70%). An industrial use value is attributed to the areas under glasshouses.
- 6.29 It is necessary to consider the value of policy compliant land transactions. As set out above, the average value in the general area is about £1,300,000/ha. The transactions that inform this average are not representative of the sites that are under consideration in this assessment. The Garden Town sites range from 750 units to 8,500 units and from 72ha to about 1,000ha. The largest site for which price paid data was available was about 10ha, so of a completely different scale. No additional or alternative evidence was presented in this regard through the consultation with the site promoters.

***How should the premium to the landowner be defined for viability assessment?***

*The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.*

*Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. For any viability assessment data sources to inform the establishment the landowner premium should include market evidence and can include benchmark land values from other viability assessments. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).*

PPG 10-016-20180724

- 6.30 The question for this assessment is what is a reasonable premium? In the Councils' published viability studies the following approaches were taken:
- a. *EHDC Plan Viability, Affordable Housing and CIL Study (PBA, 1st October 2015)* is the oldest of the three studies and a Threshold Land Value (being equivalent to BLV) of £2,250,000/ha is used for housing in the southern area of the district.
  - b. *EFDC Stage 2: Update Assessment of the Viability of Affordable Housing, CIL and the Local Plan (Dixon Searle, November 2017)* takes various approaches, however for large greenfield sites, the assumption of £250,000/ha is used.
  - c. *Harlow's Local Plan Viability Assessment, Affordable Housing and CIL Review (BNP Paribas, March 2018)* uses two thresholds of £250,000/ha and £370,000/ha, although the geographical area of this is not mapped.

- 6.31 The Epping Forest and Harlow studies clearly follow the EUV Plus approach, so the methodologies used are most closely aligned with the updated PPG. The East Hertfordshire assessment does not follow the EUV plus approach, so it is given less weight. In this assessment, to consider the deliverability of the very large sites that make up the Harlow and Gilston Garden Town, it is necessary to make an assumption as to the Landowner's Premium. The following approach is taken.
- a. On brownfield and non-agricultural land an assumption of EUV plus 20%. This only relates to the part of Water Lane – West Katherines<sup>53</sup> that is under glasshouse use.
  - b. On the agricultural land an assumption of EUV (£22,500/ha) plus £300,000/ha is used. This provides a very substantial uplift for a landowner selling a greenfield site with consent for development. In the event of the grant of planning consent they would receive over ten times the value compared with before consent was granted. This approach is the one suggested in the Harman Guidance (see Chapter 2 above) and by the Planning Advisory Service (PAS).
- 6.32 It is accepted that this is a simplification of the market, however in a high-level assessment of this type that is based on modelled sites, simplifications and general assumptions need to be made.
- 6.33 One of the site promoters<sup>54</sup> felt that the BLV value remained too low and they suggested figure of £432,000/ha (based on £175,000/acre). This difference is acknowledged. Bearing in mind the importance of this assumption in reaching a conclusion about the deliverability of sites, this is discussed with the results in Chapter 10 below.
- 6.34 It is useful to consider the assumptions used in other studies in other parts of England. We have reviewed viability thresholds used by other councils in England in development plans. These are set out in the table below.

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<sup>53</sup> The BLV for West Katherines is taken to be £585,553/ha.

	ha	EUV		Uplift		Plus %	Add Plus
Glasshouses	19	1,000,000	19,000,000	20.00%		3,800,000	0
Agricultural	44.38	22,500	998,571		300,000	0	13,314,286
	63.38		19,998,571				17,114,286
			315,530				270,023

<sup>54</sup> Latton Priory

<b>Table 6.5 Viability Thresholds Used Elsewhere</b>	
<b>Local Authority</b>	<b>Threshold Land Value</b>
Babergh	£370,000/ha
Cannock Chase	£100,000-£400,000/ha
Christchurch & East Dorset	£308,000/ha (un-serviced)
	£1,235,000/ha (serviced)
East Hampshire	£450,000/ha
Erewash	£300,000/ha
Fenland	£1-2m/ha (serviced)
GNDP	£370,000-£430,000/ha
Reigate & Banstead	£500,000/ha
Stafford	£250,000/ha
Staffordshire Moorlands	£1.26-£1.41m/ha (serviced)
Warrington	£100,000-£300,000/ha

Source: Planning Advisory Service (collated by URS)

- 6.35 Care has to be taken drawing on such general figures without understanding the wider context and other assumptions in the studies, but generally the assumptions used in this work are within the range.



## 7. Development Costs

- 7.1 This chapter considers the costs and other assumptions required to produce the financial appraisals.

### Development Costs

*Construction costs: baseline costs*

- 7.2 The cost assumptions are derived from the Building Cost Information Service (BCIS)<sup>55</sup> data, using the figures re-based for Harlow.

Table 7.1 BCIS Costs- £/m <sup>2</sup> gross internal floor area			
	Lower Quartile	Median	Average
Epping Forest	£1,107	£1,253	£1,292
Harlow	£1,097	£1,242	£1,280
East Hertfordshire	£1,097	£1,242	£1,280

Source: BCIS (July 2018)

- 7.3 The cost figure for Harlow for 'Estate Housing – Generally' is £1,242/m<sup>2</sup> at the time of this assessment<sup>56</sup>. Initially it was suggested that the Lower Quartile costs for the different construction forms and types (detached, flats, office etc) is applied to the appraisals. Through the consultation one site promoter<sup>57</sup> put forward a figure of £115/sqft base build (£1,238/m<sup>2</sup>) plus uplifts 'to allow for abnormal foundations, demolition and site remediation'. This is similar to the median cost.
- 7.4 Several consultees<sup>58</sup> expressed a concern around basing the costs on a lower quartile costs in a situation where the Councils have an aspiration for the highest quality designs and Garden Town Principles. The actual construction cost (of the dwellings) is not impacted on by Garden Town Principles as such, although site costs can be.

<sup>55</sup> BCIS is the Building Cost Information Service of the Royal Institution of Chartered Surveyors.

<sup>56</sup> BCIS Rebased to Harlow – 7<sup>th</sup> July 2018.

<sup>57</sup> Water Lane – West Katherines

<sup>58</sup> Gilston Village 1-6, Gilston – Village 7, Water Lane – West Sumners, and Latton Priory

- 7.5 One consultee<sup>59</sup> suggested that given the relatively small sample size, an Essex wide figure should be used. Relative to the UK-wide figure, Harlow is indexed<sup>60</sup> to 109, but the Essex figure is slightly lower at 107. The approach taken is cautious and appropriate.
- 7.6 A consultee<sup>61</sup> suggested that upper quartile should be used or alternatively, individual costs plans be prepared for the different house types and that these be used. This has not been done, paragraph 10-012-20180724 of the PPG particularly recommends the use of the BCIS. Such an approach of designing specific units and costing them would not be proportionate. Specifically it is not accepted that it is necessary (and is certainly not proportionate) to prepare a detailed cost plan for the final scheme. The PPG is quite clear that the BCIS is an appropriate data source and the modelling is based on a policy compliant scheme.
- 7.7 Having considered the representations, the appraisals are based on BCIS median costs.
- 7.8 The base assumption in this report is that homes are built to the basic Building Regulation Part L 2010 Standards but not to higher environmental standards. This is in line with the Government announcement, made at the time of the Summer 2015 Budget in the *Fixing the foundations productivity report*<sup>62</sup>, of its intention not to proceed with the zero carbon buildings policy.

*... repeat its successful target from the previous Parliament to reduce net regulation on housebuilders. The government does not intend to proceed with the zero carbon Allowable Solutions carbon offsetting scheme, or the proposed 2016 increase in on-site energy efficiency standards, but will keep energy efficiency standards under review, recognising that existing measures to increase energy efficiency of new buildings should be allowed time to become established*

- 7.9 As a result, there was no uplift to Part L of the Building Regulations during 2016, and both the 2016 zero carbon homes target and the 2019 target for non-domestic zero carbon buildings will be dropped, including the Allowable Solutions programme. Having said this, environmental standards are increasing. In 2014 DCLG published *Housing Standards Review – Cost Impacts* (EC Harris, September 2014) that considered the more recent changes in building regulations and the optional additional standards. Based on the best currently available information, the costs of building to the now clarified, enhanced building standards is in line with the BCIS costs. In this viability assessment, the median BCIS costs are used.

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<sup>59</sup> Latton Priory

<sup>60</sup> As at November 2018

<sup>61</sup> Gilston – Village 7

<sup>62</sup> <https://www.gov.uk/government/publications/fixing-the-foundations-creating-a-more-prosperous-nation>

- 7.10 It is assumed that all new non-residential development is built to the BREEAM Very Good standard. The additional cost of this is negligible as outlined in research<sup>63</sup> by BRE.

*Construction costs: affordable dwellings*

- 7.11 The procurement route for affordable housing is assumed to be through construction by the developer and then disposal to a housing association on completion. In the past, when considering the build cost of affordable housing provided through this route, we took the view that it should be possible to make a saving on the market housing cost figure, on the basis that one might expect the affordable housing to be built to a slightly different specification than market housing. However, the pressures of increasingly demanding standards for housing association properties have meant that, for conventional schemes of houses at least, it is no longer appropriate to use a reduced build cost; the assumption is of parity.

**Site Costs**

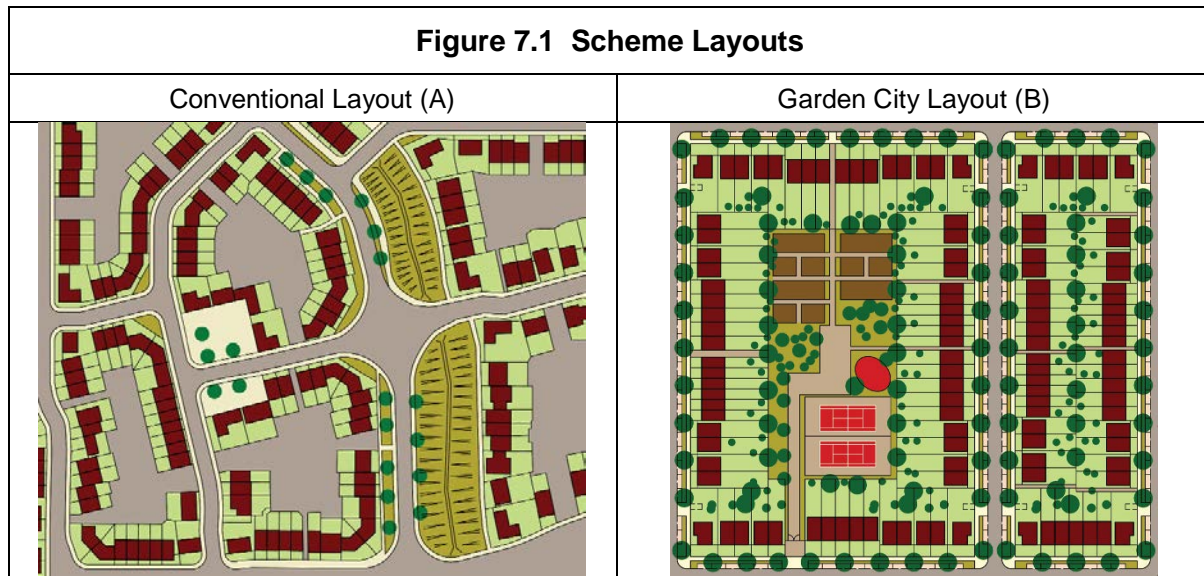
- 7.12 The difference between the Garden Town and the conventional approach is in two main parts. The first being the total land requirement and the second being the layout.
- 7.13 In this assessment the construction costs are based on the BCIS costs. The BCIS costs include the costs of the building but not the costs of services and external works. For this assessment we have had regard to the work carried out by URS (now AECOM) to support the TCPA's *Nothing gained by overcrowding!* paper<sup>64</sup>. In that paper, two 4ha schemes were modelled as per the layouts below (at 2012 prices) to ascertain the estimated site costs. It found that the site costs on the Garden Town scheme, on a per unit basis, are about 65% of the costs on the conventional scheme.

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<sup>63</sup> Delivering sustainable buildings: Savings and payback. Yetunde Abdul, BRE and Richard Quartermaine, Sweett Group. Published by IHS BRE Press, 7 August 2014

<sup>64</sup> See footnote 1.





Source: Nothing gained by overcrowding! TCPA 2012

- 7.14 The reason for this is set out in the report as follows (where Scheme A is the Conventional scheme and Scheme B adopts the Garden City principles):

*... the real difference between the two approaches becomes apparent when we then take into account the substantially larger plot size of homes in Scheme B. It can be seen that the cost per square metre is more than 40% less for homes in Scheme B, and more than 50% less if one includes a share of the communal open space area. Aside from the adoption of the highway and footways, no additional cost has been included for the long-term management and maintenance of communal areas in either scheme. However, there are significant differences between the two approaches. In Scheme A only 31% of the total area is looked after by the individual property owners or tenants, leaving almost 70% of the area to be maintained by the highway authority or management company. In contrast, in Scheme B the area to be maintained communally is just 39%, and would be reduced to just 24% if the communal gardens were managed directly by the residents.*

- 7.15 Under a conventional scheme it is generally assumed that the site costs would be in the range of 15% to 20% of the construction (i.e. BCIS based) costs. In the pre-consultation notes site costs were assumed to be 13% of the BCIS based construction cost. A site promoter<sup>65</sup> suggested that Garden Town Principles (in this situation) were less about the layout of the net developable area and more about the undeveloped land and the net / gross area.
- 7.16 One consultee suggested<sup>66</sup> that this adjustment for Garden Town Principles should not be made and 'the conventional 20% of build costs' should be used. Part of the justification for this was that they would not be following the layout aspects of the Garden Town Principles. In an assessment of this type it is necessary to follow the policy requirements. Through the February 2019 consultation this developer suggested that the approach set out in *Nothing*

<sup>65</sup> Gilston – Villages 1-6

<sup>66</sup> Latton Priory



*gained by overcrowding!* (TCPA 2012) was too simplistic. It is accepted that the paper is a high-level assessment, but in the absence of any alternate evidence that considers the costs behind the Garden City principles the approach taken is appropriate.

- 7.17 Other consultees<sup>67</sup> commented differently agreeing the 13% assumption was too low – but suggesting ‘an allowance of 15% of basic build costs’. It was also suggested that<sup>68</sup> if the upper quartile BCIS costs were used, then the 13% assumption would be appropriate – otherwise a 15% to 20% assumption should be used.
- 7.18 Following the February 2019 consultation, a developer<sup>69</sup> suggested that the 15% appeared low, citing the anticipated level of quality but not providing any actual supporting evidence. Bearing in mind the wider comments no further change is made and in this iteration a 15% assumption is used.
- 7.19 Another developer<sup>70</sup> suggested that an additional allowance needed to be made for internal roads and the like. These costs are included in the 15% allowance used.

#### *Abnormal costs*

- 7.20 With regard to abnormals, paragraph 10-012-20180724 of the PPG says:

*abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value*

- 7.21 This needs to be read with paragraph 10-014-20180724 of the PPG that says that:

*Benchmark land value should: ... reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and ...*

- 7.22 The consequence of this, when considering viability in the planning system, is that abnormal costs should be added to the cost side of the viability assessment, but also reflected in (i.e. deducted from) the BLV. This has the result of balancing the abnormal costs on both elements of the appraisal.
- 7.23 This approach is consistent with the treatment of abnormals that was considered at Gedling Council’s Examination in Public. There is an argument, as set out in Gedling<sup>71</sup>, that it may not be appropriate for abnormals to be built into appraisals in a high-level assessment of this type. Councils should not plan for the worst-case option – rather for the norm. For example, if two

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<sup>67</sup> Gilston – Village 7, Water Lane – West Sumners

<sup>68</sup> Gilston – Village 7

<sup>69</sup> Gilston – Village 7

<sup>70</sup> Water Lane – St Katherine’s

<sup>71</sup> REPORT TO GEDLING BOROUGH COUNCIL, THE PLANNING INSPECTORATE REF PINS/N3020/429/4, MAY 2015

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

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

- 7.24 In some cases, where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures; flood prevention measures at waterside locations; remediation of any land contamination; remodelling of land levels; and so on. An additional allowance is made for abnormal costs associated with brownfield sites of 5% of the BCIS costs (the 19ha of glasshouses at Water Lane, West Katherine is treated as brownfield land).
- 7.25 By way of example, there are several very significant specific abnormal costs. To deliver the Gilston sites a new electricity substation is needed. The estimated cost is over £25,000,000 (this is to be confirmed). This has not been included in the appraisals. Whilst it is a cost, that cost would be offset by an equal reduction in the BLV. The acoustic wall that is required on the M11 boundary of Harlow East has been treated in the same way.
- 7.26 In summary, abnormal costs will be reflected in land value. Those sites that are less expensive to develop will command a premium price over and above those that have exceptional or abnormal costs. It is not the purpose of an assessment of this type to standardise land prices across an area.

#### *Fees*

- 7.27 For residential and non-residential development professional fees are assumed to amount to 8% of build costs. Additional allowance is made for planning application fees, acquisition costs, sales (disposal) fees and fees in relation to finance.

#### **Contingencies**

- 7.28 For previously undeveloped and otherwise straightforward sites, a contingency of 2.5% has been allowed for, with a higher figure of 5% on more risky types of development, such as previously developed land.

- 7.29 One consultee<sup>72</sup> suggested 5% should be used on residential development and 10% on infrastructure elements. A second consultee<sup>73</sup> suggested a 5% assumption as a buffer to cover abnormal costs, they also suggested it was illogical to make a differential in this regard. A third consultee<sup>74</sup> suggested 5%.
- 7.30 The strategic infrastructure and mitigation costs, set out later in this chapter, include appropriate contingencies, so an additional contingency cost is not added. It is necessary to reflect the 'unknowns' that are more likely to arise in brownfield sites and as these are likely to be greater than on greenfield sites, no change is made in this regard.
- 7.31 The subject of contingency was discussed further at the February 2019 consultation meeting and raised<sup>75</sup> subsequently. It was confirmed that the strategic infrastructure and mitigation costs include a separate 20% contingency, that 2.5% has been applied to greenfield sites and 5% to brownfield sites. It was again suggested that 5% should be used in all cases. This is not accepted; this assumption is to reflect risk and should be considered with the developer's return. The differentiation between greenfield and brownfield sites is, in part, through this assumption.

#### **S106 Contributions and the costs of infrastructure**

- 7.32 For many years, the Councils have sought payments from developers to mitigate the impact of the development through improvements to the local infrastructure. At the time of the initial consultation on the early draft of this document, no cost data in this regard was presented to the consultees (ARUP were undertaking a simultaneous consultation on the site specific and wider requirements with infrastructure providers and site promoters). Unsurprisingly most consultees highlighted the importance of this part of the assessment.
- 7.33 The Councils have recently reviewed the Infrastructure Delivery Plans specifically in relation to the Garden Town development. This work includes a disaggregation of the cost by site:

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<sup>72</sup> Latton Priory

<sup>73</sup> Gilston – Village 7

<sup>74</sup> Water Lane – West Sumners

<sup>75</sup> Gilston – Village 7 and West Sumners

<b>Table 7.2 Strategic Infrastructure and Mitigation Costs</b>			
	Units	Total	Cost/unit
East of Harlow (North)	750	£36,114,903	£48,153
East of Harlow (South)	2,600	£118,713,857	£45,659
Latton Priory	1,050	£50,414,373	£48,014
Water Lane Area (Sumners)	807	£39,892,836	£49,434
Water Lane Area (Katherines)	1,331	£65,718,743	£49,375
Gilston (Villages 1-6)	8,500	£460,951,808	£54,230
Gilston (Village 7)	1,500	£80,704,761	£53,803

Source: Arup, (March 2019)

- 7.34 All the above costs are somewhat higher than those used in the earlier (February 2019) draft iteration of this report. It is important to note that the above costs include allowances for open space. The majority of these costs are normal site costs and covered within the normal landscaping and site preparation assumptions. The exceptions are the £5,000,000 costs that relate to the River Stort green infrastructure (Gilston 1-6 - £4,250,00, Gilston 7 - £750,000). Further, some of the above costs include an allowance for land cost. It is normal for land to be provided for infrastructure at no cost, so this element is also deducted. The following costs are in the appraisals.

<b>Table 7.3 Refined Strategic Infrastructure and Mitigation Costs</b>			
	Units	Total	Cost/unit
East of Harlow (North)	750	£34,536,459	£46,049
East of Harlow (South)	2,600	£104,999,393	£40,384
Latton Priory	1,050	£48,191,121	£45,896
Water Lane Area (Sumners)	807	£38,247,063	£47,394
Water Lane Area (Katherines)	1,331	£63,004,339	£47,336
Gilston (Villages 1-6)	8,500	£445,525,028	£52,415
Gilston (Village 7)	1,500	£77,980,821	£51,987

Source: Arup, (March 2019)

- 7.35 These costs are disaggregated by type of contribution in **Appendix 9** and are tested within this assessment. The above figures do not include the potential SANG costs in relation to Epping Forest, which are expected to be in the region of £2,500,000.
- 7.36 The timing of these payments is also important and summarised below, further disaggregation is included in **Appendix 9**.

**Table 7.4 Phasing of Strategic Infrastructure and Mitigation Costs**

	2018 - 2023	2023 - 2028	2028 - 2033	2033 - 2038	2038 - 2043	2043 +
<b>East of Harlow (North)</b>						
Units	0	250	500	0	0	0
<b>S106 £</b>	£5,003,426	£18,713,880	£9,451,552	£295,166	£295,166	£777,269
s106 %	14.49%	54.19%	27.37%	0.85%	0.85%	2.25%
<b>East of Harlow (South)</b>						
Units	750	1,150	700	0	0	0
<b>S106 £</b>	£18,912,495	£51,556,734	£29,789,150	£1,023,241	£1,023,241	£2,694,533
s106 %	18.01%	49.10%	28.37%	0.97%	0.97%	2.57%
<b>Latton Priory</b>						
Units	50	500	500	0	0	0
<b>S106 £</b>	£6,830,689	£30,072,170	£9,373,621	£413,232	£413,232	£1,088,177
s106 %						
<b>Water Lane Area (Sumners)</b>						
Units	38	384	384	0	0	0
<b>S106 £</b>	£5,247,972	£25,729,792	£5,797,762	£317,598	£317,598	£836,342
s106 %	13.72%	67.27%	15.16%	0.83%	0.83%	2.19%
<b>Water Lane Area (Katherines)</b>						
Units	63	634	634	0	0	0
<b>S106 £</b>	£8,655,577	£42,359,372	£9,562,356	£523,820	£523,820	£1,379,394
s106 %	13.74%	67.23%	15.18%	0.83%	0.83%	2.19%
<b>Gilston (Villages 1-6)</b>						
Units	217	833	1,000	1,000	1,500	3,950
<b>S106 £</b>	£125,285,303	£105,060,160	£103,991,799	£41,914,009	£27,171,859	£42,101,898
s106 %	28.12%	23.58%	23.34%	9.41%	6.10%	9.45%
<b>Gilston (Village 7)</b>						
Units	0	500	500	500	0	0
<b>S106 £</b>	£19,369,648	£20,851,622	£18,518,411	£7,564,222	£4,644,246	£7,032,671
s106 %	24.84%	26.74%	23.75%	9.70%	5.96%	9.02%

Source: Arup, (March 2019)Note:

- 7.37 In the above some of the payments continue beyond the completion of the last unit. Where this is the case, in the modelling, it is assumed any payments that are scheduled for after the completion of the last unit are made in the year of the last unit. Equally, some of the payments are well before the start of the project, where this is the case, in the modelling it is assumed that the payment is made in the first year of the project. The above trajectory for the early phases of Gilston Villages 1-6 is slightly different to that in the IDP. The impact is considered to be minimal.
- 7.38 The trajectory of payments has changed between the previous iteration and this iteration (March 2019) of the assessment. This generally has an adverse impact on the appraisal results.

- 7.39 Whilst it is beyond the scope of this assessment to delve into the make up of the strategic infrastructure and mitigation costs, it is noted that some of the costs include doctors' surgeries. Such facilities have a value and are not necessarily a cost of development.
- 7.40 To enable sensitivity testing in this regard, a range of infrastructure costs ranging from £0 to £70,000 per unit has been tested.
- 7.41 Through the consultation process it was suggested<sup>76</sup> that a figure of £23,800 to £32,200 per plot be used, being based on a (indexed) figure from the Harman Guidance. Whilst the Harman Guidance is useful, in this instance it is necessary to use the actual estimate of the infrastructure requirements (which are substantially greater than those suggested in the Harman Guidance).
- 7.42 The above costs are estimates and they may be subject to change. Further, no allowance is made for any external funding. The Councils have a good track record in securing external funding for the Department of Transport (for M11 junction works) and others. By way of example, there are current HIF bids being prepared at the time of this report.

### Financial and Other Appraisal Assumptions

#### *CIL*

- 7.43 None of the Councils have adopted CIL. No allowance is made for this tax.
- 7.44 One site promoter did suggest that an assumption be made as to the level of CIL and this be incorporated into the appraisals – based on nearby authorities. This has not been followed – if CIL is taken forward by any of the Authorities, the site promoters will be able to comment at that time (there is scope, within the CIL Regulations for strategic sites to be treated as separate CIL Zones).

#### *VAT*

- 7.45 It has been assumed throughout, that either VAT does not arise, or that it can be recovered in full<sup>77</sup>.
- 7.46 Through the consultation<sup>78</sup> it was noted that VAT on the SDLT element of land purchases is not recoverable. This is the case where VAT is charged, however (based on information from the Land Registry) VAT only related to three of the sales set out in **Appendix 7** of this document. No change has been made in this regard.

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<sup>76</sup> Water Lane, West Katherines

<sup>77</sup> Residential Development is zero rated so VAT on development can be recovered. Where an election is made to charge VAT in relation to non-residential development the VAT can be recovered.

<sup>78</sup> Water Lane, West Katherines

### *Interest rates*

- 7.47 The appraisals assume 6% pa for total debit balances. No allowance is made for any equity provided by the developer. This does not reflect the current working of the market nor the actual business models used by developers. In most cases the smaller (non-plc) developers are required to provide between 30% and 40% of the funds themselves, from their own resources, so as to reduce the risk to which the lender is exposed. The larger plc developers tend to be funded through longer term rolling arrangements across multiple sites.
- 7.48 The 6% assumption may seem high given the very low base rate figure (0.75% March 2019). Developers that have a strong balance sheet, and good track record, can undoubtedly borrow less expensively than this, but this reflects banks' view of risk for housing developers in the present situation. In the residential appraisals, a simple cashflow is used to calculate interest.
- 7.49 The relatively high assumption of the 6% interest rate (relative to base rates), and the assumption that interest is chargeable on all the funds employed, has the effect of overstating the total cost of interest as most developers are required to put some equity into most projects.
- 7.50 A consultee<sup>79</sup> said:

*Funding of development is a complex area which typically involves a number of different parties (including the developer) committing funds to support the development. The cost of these funds will not consistently lie at or below the 6% allowance identified in the draft HGVA and the interest costs for many scenarios will be above this allowance. This is particularly pertinent when considering complex phased long timescale schemes.*

- 7.51 This is agreed, but it is necessary to make an appropriate assumption in an assessment of this type.
- 7.52 An arrangement fee of 1% of the peak borrowing requirement is also allowed for<sup>80</sup>.

### *Developers' return*

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

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<sup>79</sup> Latton Priory

<sup>80</sup> The peak borrowing requirement (assuming no developer's equity) is taken from the cashflow.

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

7.55 The Harman Guidance says:

*Return on development and overhead*

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

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

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

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

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

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

7.56 The HCA's Economic Appraisal Tool – the accompanying guidance for the tool kit says:

*Developer's Return for Risk and Profit (including developer's overheads)*

*Open Market Housing*

*The developer 'profit' (before taxation) on the open market housing as a percentage of the value of the open market housing. A typical figure currently may be in the region of 17.5-20% and overheads being deducted, but this is only a guide as it will depend on the state of the market and the size and complexity of the scheme. Flatted schemes may carry a higher risk due to the high capital employed before income is received.*



*Affordable Housing*

*The developer 'profit' (before taxation) on the affordable housing as a percentage of the value of the affordable housing (excluding SHG). A typical figure may be in the region of 6% (the profit is less than that for the open market element of the scheme, as risks are reduced), but this is only a guide.*

7.57 Paragraph 10-018-20180724 of the updated PPG says:

*How should a return to developers be defined for the purpose of viability assessment?*

*Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.*

*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.*

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

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

7.60 Broadly there are four different approaches that could be taken:

- a. To set a different rate of return on each site to reflect the risk associated with the development of that site. This would result in a lower rate on the smaller and simpler sites – such as the greenfield sites, and a higher rate on the brownfield sites.
- b. To set a rate for the different types of unit produced – say 20% for market housing and 6% for affordable housing, as suggested by the HCA.
- c. To set the rate relative to costs – and thus reflect the risks of development.
- d. To set the rate relative to the gross development value.

- 7.61 In deciding which option to adopt, it is important to note that the intention is not to re-create any particular developer's business model. Different developers will always adopt different models and have different approaches to risk.
- 7.62 The argument is sometimes made that financial institutions require a 20% return on development value and if that is not shown they will not provide development funding. In the pre-Credit Crunch era there were some lenders who did take a relatively simplistic view to risk analysis but that is no longer the case. Most financial institutions now base their decisions behind providing development finance on sophisticated financial modelling that it is not possible to replicate in an assessment of this type. They require the developer to demonstrate a sufficient margin, to protect them in the case of changes in prices or development costs, but they will also consider a wide range of other factors, including the amount of equity the developer is contributing – both on a loan to value and loan to cost basis, the nature of development and the development risks that may arise due to demolition works or similar, the warranties offered by the professional team, whether or not the directors will provide personal guarantees, and the number of pre-sold units.
- 7.63 This is a high-level assessment where it is necessary and proportionate to take a relatively simplistic approach, so, rather than apply a differential return (either site by site or split between market and affordable housing), it is appropriate to make some broad assumptions.
- 7.64 In the initial iteration of this assessment the developers' return was assumed to be 17.5% of the value of market housing (being the midpoint in the range suggested by the PPG) and 6% of the value of affordable housing. This is in line with the updated PPG. In relation to non-residential development, an assumption of 15% is used. These assumptions should be considered with the assumption about interest rates in the previous section, where a cautious approach was taken with a relatively high interest rate, and the assumption that interest is charged on the whole of the development cost. Further consideration should also be given to the contingency sum in the appraisals which is also reflective of the risks.
- 7.65 In this regard one consultee<sup>81</sup> commented:

*For long term projects it is unrealistic in modelling terms to assume that the developer will defer all profit to the end of the scheme. In the case of strategic opportunities this suggests a 'nil return' development for 15+ years; a proposition which would generally not be funded.*

*This 'single phase' appraisal approach typically run by HDH on long projects should be modified to reflect the commercial reality that profit will need to be recovered from the scheme as it progresses rather than deferred entirely to the end of the scheme.*

- 7.66 It is important to make a distinction between developers' return as used (in line with the PPG<sup>82</sup>) and 'profit'. Viability in the planning system is not trying to imitate any particular developer's

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<sup>81</sup> Latton Priory

<sup>82</sup> PPG 10-018-20180724 says:

or land promoter's business model, rather it is making an assessment of the deliverability of development sites in the way that is set out in the PPG. Under the Residual Valuation method adopted (as per the PPG and the Harman Guidance) the approach taken is appropriate. It is not appropriate to subdivide the site as implied, it is necessary to consider the deliverability of the whole site.

- 7.67 Another consultee<sup>83</sup> suggested that 20%, and another<sup>84</sup> 20% to 25%, be applied and this should be regarded as a minimum. As set out above, paragraph 10-018-20180724 of the updated PPG says that '*... for the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies ...*'.
- 7.68 In this iteration of this assessment the developers' return is assumed to be 20% of the value of market housing (being the top end of the range suggested by the PPG) and 6% of the value of affordable housing. The 20% / 6% assumption is broadly equivalent to 17.5% of total GDV. This may be seen as an overly cautious approach, bearing in mind the suggested range in the PPG, however, does reflect the comments of consultees.

#### *Voids*

- 7.69 On a scheme comprising mainly individual houses, one would normally assume only a nominal void period as the housing would not be progressed if there was no demand. In the case of apartments in blocks this flexibility is reduced. Whilst these may provide scope for early marketing, the ability to tailor construction pace to market demand is more limited.
- 7.70 For the purpose of the present assessment, a three-month void period is assumed for residential developments.

#### *Phasing and timetable*

- 7.71 A pre-construction period of six months is assumed for all of the sites. Each dwelling is assumed to be built over a nine-month period. The phasing programme for an individual site will reflect market take-up and would, in practice, be carefully estimated taking into account the site characteristics and, in particular, the size and the expected level of market demand. The rate of delivery will be an important factor when the Councils are considering the release of sites so as to manage the delivery of housing and infrastructure. Two aspects are relevant,

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*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.*

<sup>83</sup> Gilston – Village 7

<sup>84</sup> Water Lane – West Sumners

firstly the number of outlets that a development site may have, and secondly the number of units that an outlet may deliver.

7.72 We have followed the trajectory provided by the Councils that we understand has been developed with the various site promoters and taking account of recent delivery rates in the area. These assumptions are conservative and do, properly, reflect current practice. This is the appropriate assumption to make to be in line with the PPG and Harman Guidance.

7.73 The phasing is taken from the overall Garden Town trajectory:

<b>Table 7.5 Harlow Garden Town Trajectory</b>							
	2018 - 2023	2023 - 2028	2028 - 2033	2033 - 2038	2038 - 2043	2043+	Total
East of Harlow (North)	0	250	500	0	0	0	<b>750</b>
	0.00%	33.33%	66.67%	0.00%	0.00%	0.00%	
East of Harlow (South)	750	1,150	700	0	0	0	<b>2,600</b>
	28.85%	44.23%	26.92%	0.00%	0.00%	0.00%	
Latton Priory	50	500	500	0	0	0	<b>1,050</b>
	4.76%	47.62%	47.62%	0.00%	0.00%	0.00%	
Water Lane Area (Sumners)	38	384	384	0	0	0	<b>806</b>
	4.71%	47.64%	47.64%	0.00%	0.00%	0.00%	<b>100.00%</b>
Water Lane Area (Katherines)	63	634	634	0	0	0	<b>1,331</b>
	4.73%	47.63%	47.63%	0.00%	0.00%	0.00%	
Gilston (Villages 1-6)	217	833	1,000	1,000	1,500	3,950	<b>8,500</b>
	2.55%	9.80%	11.76%	11.76%	17.65%	46.47%	
Gilston (Village 7)	0	500	500	500	0	0	<b>1,500</b>
	0.00%	33.33%	33.33%	33.33%	0.00%	0.00%	

Source: Arup (March 2019)

7.74 It is important to note that the above is taken from the wider trajectory and is in 5-year blocks. Within each 5-year block it is assumed that the delivery is equal in each year.

### **Site Acquisition and Disposal Costs**

#### *Site holding costs and receipts*

7.75 Each site is assumed to proceed immediately (following a 6-month mobilisation period) and so, other than interest on the site cost during construction, there is no allowance for holding costs, or indeed income, arising from ownership of the site.

#### *Acquisition costs*

7.76 An allowance 1.5% for acquisition agents' and legal fees is made. Stamp duty is calculated at the prevailing rates.



*Disposal costs*

- 7.77 For the market and the affordable housing, sales and promotion and legal fees are assumed to amount to 3.5% of receipts. For disposals of affordable housing, these figures can be reduced significantly depending on the category, so in fact the marketing and disposal of the affordable element is probably less expensive than this.

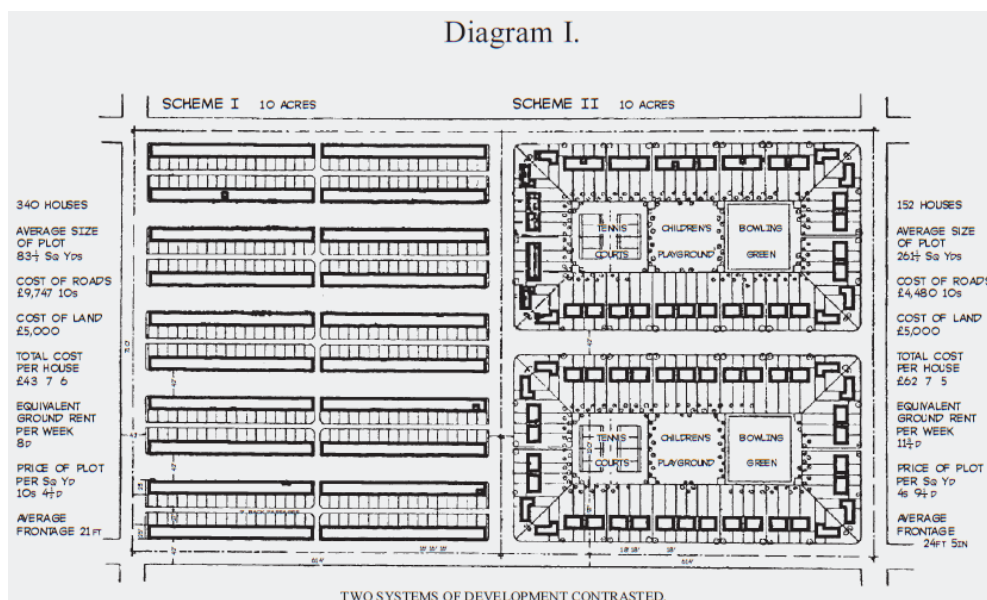


## 8. Local Plan Policy Requirements

- 8.1 Ultimately the purpose of this assessment is to demonstrate the deliverability of the sites that make up the Harlow and Gilston Garden Town. This needs to be done in the context of local planning policies. The three Councils are at different stages of the plan-making process.
- Harlow Council has prepared and agreed a submission Local Plan which was published for comments on legality and soundness between 10<sup>th</sup> May and 22<sup>nd</sup> June 2018. The Plan was submitted for public examination in October 2018 and the hearings have taken place and are now adjourned.
  - Epping Forest District Council's Local Plan Submission Version was published for comments on soundness and legal compliance for a six-week period from 18<sup>th</sup> December 2017 to 29<sup>th</sup> January 2018. The hearings are now underway.
  - East Herts District Plan was submitted in early 2017; it has been through the examination process and was adopted later on 23<sup>rd</sup> October 2018.
- 8.2 The Councils' policy requirements are summarised in **Appendix 10**. The main requirements that impact on viability are set out below.

### Garden City Principles

- 8.3 It is not the purpose of this paper to discuss or develop the Garden City principles – they are a requirement of the proposals. It is however important to appreciate what they are.



Source: Diagram 1 Nothing Gained by Overcrowding! Raymond Unwin. 1912

- 8.4 The TCPA has published a series of documents setting out the characteristics and principles underpinning a Garden City approach. The principles and basic assumptions for how these have been reflected in modelling, noting this is a high level assessment can be summarised as follows:

**Table 8.1 Modelling Garden City Principles**

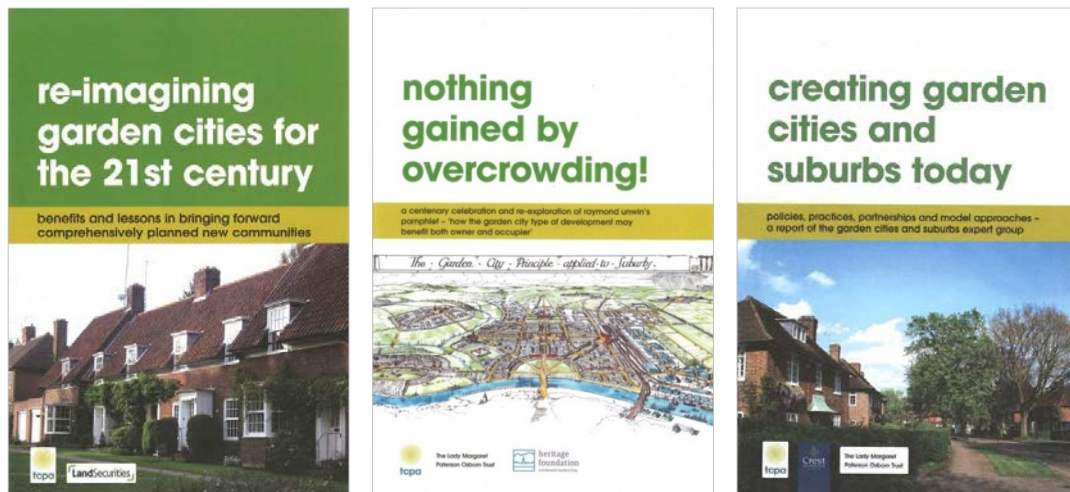
<b>Garden City Principles</b>	<b>How this is reflected in assumptions and modelling</b>
Strong vision, leadership and community engagement.	This is dealt with at the planning stage and assumed to be covered in the professional fee allowances. In practice it may extend the planning process. In a new standalone development the community engagement is likely to be substituted by a wider engagement (as the community will not yet have been formed)
Land value capture for the benefit of the community.	Discussion around this is the output of this report so not modelled.
Community ownership of land and long-term stewardship of assets.	In the modelling it has been assumed that the openspaces are transferred to a community trust or similar. The IDP identifies establishing mechanisms for ongoing stewardship and governance as an important requirement but no costs have currently been associated with this. Dependent upon the approach taken, it is acknowledged that this could represent an additional cost to development.
Mixed-tenure homes and housing types that are affordable for ordinary people.	A mix of market and affordable housing is assumed, with a mix of unit sizes bases on policy requirements.
A strong local jobs offer in the Garden City itself, with a variety of employment opportunities within easy commuting distance of homes.	The land budget includes land for employment uses.
Beautifully and imaginatively designed homes with gardens, combining the very best of town and country living to create healthy homes in vibrant communities.	Generally, we have taken the view that good design costs no more than poor design and assumed the costs of design and construction are in line with industry norms.
Generous green space linked to the wider natural environment, including a surrounding belt of countryside to prevent sprawl, well connected and biodiversity rich public parks, and a mix of public and private networks of well-managed, high-quality gardens, tree-lined streets and open spaces.	The layout and landscaping are at the core of this study and are set out below.
Opportunities for residents to grow their own food, including generous allotments.	The openspace provisions provide adequate space for allotments.
Strong local cultural, recreational and shopping facilities in walkable neighbourhoods.	The modelling includes appropriate levels of community buildings and retailing.
Integrated and accessible transport systems – with a series of settlements linked by rapid transport providing a full range of employment opportunities (as set out in Howard's vision of the 'Social City').	The modelling includes appropriate contributions to improvements to local transport.

Source: HDH 2018



- 8.5 The TCPA work included an analysis of Garden City neighbourhood design as compared to that followed by conventional practice. This work, included as part of the centenary republication of Raymond Unwin's *Nothing Gained by Overcrowding!*, concluded that:

*"the Garden City approach holds significant advantages over a typical layout produced by current practice. It organises streets, homes and gardens in much more efficient way so as to achieve a comparable density of development while providing residents with substantially more generous gardens, outdoor amenity space and tree-lined streets. Moreover, this better approach to neighbourhood planning translates into significant cost savings in the construction of expensive roads and parking areas, so that the benefits of the Garden City approach can be secured at a more affordable cost"* (pg. 36).



- 8.6 As explained in Chapter 7 above, this work is used as a basis for attributing development costs to the development.
- 8.7 In this report we have assumed that for large scale development it is necessary to consider commercial and community facilities as well as residential development. The Garden City principles put considerable importance on the access to local employment and services. The proposed sites are all major development propositions and requires the provision of appropriate employment service and ancillary supporting development, as well as infrastructure.

### Nationally Described Space Standards

- 8.8 It is assumed that these will apply. In March 2015 the Government published *Nationally Described Space Standard – technical requirements*. This says

*This standard deals with internal space within new dwellings and is suitable for application across all tenures. It sets out requirements for the Gross Internal (floor) Area of new dwellings at a defined level of occupancy as well as floor areas and dimensions for key parts of the home, notably bedrooms, storage and floor to ceiling height.*

8.9 The following unit sizes are set out<sup>85</sup>:

<b>Table 8.2 National Space Standards. Minimum gross internal floor areas and storage (m<sup>2</sup>)</b>					
number of bedrooms	number of bed spaces	1 storey dwellings	2 storey dwellings	3 storey dwellings	built-in storage
1b	1p	39 (37)*			1
	2p	50	58		1.5
2b	3p	61	70		2
	4p	70	79		
3b	4p	74	84	90	2.5
	5p	86	93	99	
	6p	95	102	108	
4b	5p	90	97	103	3
	6p	99	106	112	
	7p	108	115	121	
	8p	117	124	130	
5b	6p	103	110	116	3.5
	7p	112	119	125	
	8p	121	128	134	
6b	7p	116	123	129	4
	8p	125	132	138	

Source: Table 1, Technical housing standards – nationally described space standard (March 2015)

8.10 In this assessment the units are assumed to be in excess of these National Space Standards.

### **Accessible and Adaptable Standards**

8.11 The Councils are seeking that all new homes be built to Part M4 – Category 2 of Building Regulations (accessibility and adaptability). It is also assumed that 10% of all new homes are built to Part M4 Category 3 (accessible and adaptable for occupants who use a wheelchair).

8.12 The additional costs of the space standards (as set out in the draft Approved Document M amendments included at Appendix B4) are set out in the table below. The key features of the

<sup>85</sup>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/524531/160519\\_Nationally\\_Described\\_Space\\_Standard\\_Final\\_Web\\_version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524531/160519_Nationally_Described_Space_Standard_Final_Web_version.pdf)

3 level standard (as summarised in the DCLG publication *Housing Standards Review – Cost Impacts* (EC Harris, September 2014)), reflect accessibility as follows:

- Category 1 – Dwellings which provide reasonable accessibility
- Category 2 – Dwellings which provide enhanced accessibility and adaptability
- Category 3 – Dwellings which are accessible and adaptable for occupants who use a wheelchair.

**Table 8.3 Additional Costs of Building to the draft Approved Document M amendments included at Appendix B4.**

*Table 45 – Access costs summary*

	1B Apartment	2B Apartment	2B Terrace	3B Semi-detached	4B Detached
<b>Cost all dwellings (extra over current industry practice)</b>					
Category 1	-	-	-	-	-
Category 2	£940	£907	£523	£521	£520
Category 3 Adaptable	£7,607	£7,891	£9,754	£10,307	£10,568
Category 3 Accessible	£7,764	£8,048	£22,238	£22,791	£23,052

*Table 45a – Access related space cost summary*

	1B Apartment		2B Apartment		2B Terrace		3B Semi-detached		4B Detached	
Cost increase for additional m2										
Category 2	+ 1 sq.m	£722	+ 1 sq.m	£722	+ 2 sq.m	£1,444	+ 3 sq.m	£2,166	+ 3 sq.m	£2,166
Category 3	+ 8 sq.m	£5,776	+ 14 sq.m	£10,108	+ 21 sq.m	£15,162	+ 24 sq.m	£17,328	+ 24 sq.m	£17,328

*Table 45b – Access related space cost after Space cost recovery*

	1B Apartment		2B Apartment		2B Terrace		3B Semi-detached		4B Detached	
Category 2	+ 1 sq.m	£289	+ 1 sq.m	£289	+ 2 sq.m	£578	+ 3 sq.m	£866	+ 3 sq.m	£866
Category 3	+ 8 sq.m	£2,310	+ 14 sq.m	£4,043	+ 21 sq.m	£6,065	+ 24 sq.m	£6,931	+ 24 sq.m	£6,931

Source: Page 38, DCLG publication *Housing Standards Review – Cost Impacts* (EC Harris, September 2014)

8.13 In line with a consultee's comments these have been increased in line with the increase in the BCIS costs (12%<sup>86</sup>). The additional costs of building to the 'accessible and adaptable' Category 2 are included.

<sup>86</sup> Based on the BCIS General Building Cost Index – Q1 2014 316, Q3 2018 353. Quarterly Review of Prices, Issue 150, September 2018

### **Developer contributions, including Community Infrastructure Levy (CIL)**

- 8.14 It is clear that the planned development will require supporting infrastructure and mitigation measures. The scope to bear developer contributions has been considered.
- 8.15 The overall levels of developer contributions are considered relative to different levels of affordable housing.

### **Water efficiency standards – exceeding minimum requirements of the Building Regulations**

- 8.16 It is assumed that these will apply. The costs are modest, likely to be less than £100/dwelling<sup>87</sup>.

### **Flood Risk**

- 8.17 It is anticipated that the new development will be required to incorporate Sustainable Urban Drainage Schemes (SUDS).
- 8.18 SUDS and the like can add to the costs of a scheme – although in larger projects these can be incorporated into public open space. It is assumed that on larger greenfield sites, of the type planned, that SUDS will be incorporated into the green spaces, and be delivered through soft landscaping within the wider site costs.

### **Other Design Requirements**

- 8.19 Bearing in mind the wider transport objectives, it is assumed that schemes will have electric charging points for vehicles. The costs of these vary (and are falling) and are in some cases covered in part by grants. An allowance of £250 per unit is allowed for.

### **Housing Mix**

- 8.20 The Councils each seek an appropriate mix of housing. In terms of size mix, this is taken from the *West Essex and East Hertfordshire Strategic Housing Market Assessment* (ORS, September 2015) as follows.

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<sup>87</sup> Table 26 – Water standards costs summary, 'DCLG publication Housing Standards Review – Cost Impacts' (EC Harris, September 2014).

Table 8.4 Housing Mix				
		Harlow	Epping Forest	East Herts
	Bedrooms			
Market Housing				
Flat	1	6.80%	5.32%	5.83%
	2+	1.20%	5.57%	6.65%
House	2	24.40%	12.62%	12.40%
	3	67.60%	50.62%	46.31%
	4	2.00%	19.55%	22.50%
	5+	0.00%	6.31%	6.32%
Affordable Housing				
Flat	1	2.90%	17.70%	19.43%
	2+	16.10%	13.98%	11.14%
House	2	27.60%	22.05%	28.67%
	3	41.10%	36.65%	33.41%
	4	10.50%	9.63%	7.35%

Source Figure 76 West Essex and East Hertfordshire SHMA (ORS, September 2015)

8.21 It is not the intention that this mix be applied rigidly to each and every site, rather it will be one of a range of factors to be considered when schemes are being designed. Concern around the mix was further made following the February 2019 consultation<sup>88</sup> and whether or not this mix was appropriate. For the purpose of this assessment it is necessary to follow the Councils' policies. It may be that developers actually pursue different mixes (for example including elements of older people's housing etc) and this may have a positive impact on viability.

8.22 This mix was commented on though the consultation process<sup>89</sup>:

*The consortium comments that the SHMA %'s do not add up to 100% and further queries the SHMA mix in particular 8% market flats, the heavy focus on 3 beds and only 2% 4 beds. In relation to the affordable mix, the consortium query the high percentage of 3 and 4 beds at 52%.*

8.23 This analysis is taken from the West Essex and East Hertfordshire SHMA (ORS, September 2015) and it is understood that the numbers have been rounded so do not all sum. It is accepted that this mix may not align with what developers may wish to build (to maximise

<sup>88</sup> Gilston – Villages 1-6

<sup>89</sup> Quote from Water Lane – West Katherines, Gilston – Village 7 also commented.

returns). It is however important that the modelling in this report follows the policy requirements of the Plans.

- 8.24 Some concern was also expressed<sup>90</sup> about absorption rates (i.e. the rate of sales) if the preferred SHMA mix was to be followed rigidly. To maximise build out rates it is necessary to have a diverse range of housing products and a range of specifications and prices. Whilst this was a passing comment that was not supported by evidence, this is a fair point to make – particularly on large, long term schemes that may well be delivered across several economic cycles.

#### *Self and Custom Build*

- 8.25 East Herts has a policy (Policy HOU8 Self-Build and Custom Build Housing) requiring 1% requirement on sites of 200 units and larger. This has been tested.

#### *Gypsy and Traveller pitches*

- 8.26 Several of the sites require the inclusion of gypsy and traveller pitches. The costs of providing these was discussed through the consultation. These have been assumed to cost £30,000 per pitch which is in line with the suggestion that the cost is about 25% of the cost of a house.
- 8.27 Whilst there is a cost to providing such pitches – but they also have a value (the policy does not require that the pitches are affordable pitches).
- 8.28 There is a substantial evidence base<sup>91</sup> as to the value of park home pitches and holiday home pitches, suggesting that across the whole of England, park home pitches have a value of about £30,000/pitch and holiday homes have a value of about £20,000/pitch. These are clearly not gypsy, traveller and travelling showpeople pitches so limited weight should be given to these figures.
- 8.29 In this study it is assumed the costs of providing gypsy and traveller pitches is cost neutral. It is assumed that the overall number of dwellings does not need to be reduced to create space for such pitches.

#### **Supplementary Planning Documents**

- 8.30 The East Herts and Harlow have a number of adopted SPDs. These are assumed to be superseded by the new Plans or adequately covered through the assessment of the Plan Policies, therefore, this assessment does not make any specific allowance for SPDs.

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<sup>90</sup> Gilston – Villages 1-6

<sup>91</sup> Such as Sanderson Weatherall's Holiday & Caravan Park , 2019 Market Report.

## 9. Modelling

- 9.1 In the previous chapters, the general assumptions to be inputted into the development appraisals are set out. In this chapter, the modelling is set out.

### Residential Development

- 9.2 The purpose of this assessment is to establish the viability of four new Garden Town Communities:
- East of Harlow** located in Harlow and Epping Forest. Total estimated number of dwellings – 3,350
  - Latton Priory** located in Epping Forest. Total estimated number of dwellings – 1,050
  - Water Lane Area** located in Epping Forest. Total estimated number of dwellings – 2,500
  - Gilston Area** located in East Hertfordshire. Total estimated number of dwellings – 10,000 (of which at least 3,050 will be delivered in the plan-period).
- 9.3 The sites are modelled individually. Further detail is provided in **Appendix 11** below. The main characteristics of the sites are summarised as follows and form the basis of the modelling.

Table 9.1 Summary of Main Harlow Garden Town Sites			
		Units	Allocation ha
East of Harlow (North)	EFDC	750	125.96
East of Harlow (South)	HBC	2,600	239.00
Latton Priory	EFDC	1,050	76.18
Water Lane Area (Sumners)	EFDC	1,331	72.33
Water Lane Area (Katherines)	EFDC	807	36.04
Gilston (Villages 1-6)	EHDC	8,500	1,000.00
Gilston (Village 7)	EHDC	1,500	120.00

Source: HC, EHDC, EFDC (March 2019)

### Development assumptions

- 9.4 In arriving at appropriate assumptions for residential development on each site, the built forms used in the appraisals are appropriate to the current development practices. In addition, the policy requirements, as set out in Chapter 8 above, in terms of mix are incorporated.
- 9.5 The sites have been modelled in a way that responds to the variety of development situations and densities typical in the area, and this is used to inform development assumptions for sites. This approach enables us to form a view about floorspace density, based on the amount of development, measured in net floorspace per hectare, to be accommodated upon each site.

This is a key variable because the amount of floorspace which can be accommodated on a site relates directly to the Residual Value, and is an amount which developers will normally seek to maximise (within the constraints set by the market).

- 9.6 A typical layout of post-PPG3/PPS3 built form would provide development at between 3,000m<sup>2</sup>/ha to 3,550m<sup>2</sup>/ha on a substantial site, or sensibly shaped smaller site. A representative housing density might be 30/net ha to 35/net ha. This has become a common development format. It provides for a majority of houses but with a small element of flats, in a mixture of two storey and two and a half to three storey form, with some rectangular emphasis to the layout.
- 9.7 Some schemes will have an appreciably higher density development providing largely or wholly apartments, in blocks of three storeys or higher, with development densities of 6,900m<sup>2</sup>/ha and dwelling densities of 100units/ha upwards; and other schemes of lower density, in the rural edge situations.
- 9.8 The main characteristics of the modelled sites are set out in the tables below. In all cases the net density is calculated at 35units/ha and gives a density of about 3,200m<sup>2</sup>/ha. It is important to note that this is based on the Councils' preferred housing mix. This preferred housing mix contains more smaller units than some developers would choose to include.





**Table 9.2 Site Areas and Densities**

			Units	Allocation ha	Net Density units/ha	Net Area ha	m2/ net ha	Units/ Gross ha
1	East of Harlow - North	EFDC	750	125.96	35.00	21.43	3,236	5.95
2	East of Harlow - South	HBC	2,600	239.00	35.00	74.29	3,090	10.88
3	Latton Priory	EFDC	1,050	76.18	35.00	30.00	3,235	13.78
4	Water Lane - W Katherine's	EFDC	1,331	72.33	35.00	38.03	3,236	18.40
5	Water Lane - W Sumners	EFDC	807	36.04	35.00	23.06	3,234	22.39
6	Gilston - Villages 1-6	EHDC	8,500	1,000.00	35.00	242.86	3,207	8.50
7	Gilston - Villages 7	EHDC	1,500	120.00	35.00	42.86	3,207	12.50

Source: HDH (February 2019)

- 9.9 Some of the allocations are very large relative to the numbers of units that are to be delivered from them with some generating densities of less than 15 units per ha. In part this is because the sites are subject to constraints and whilst the 'red line' around the allocation takes in the whole site, only part is developable. In terms of assessing viability as required by the NPPF and PPG, in a high level assessment of this type it necessary consider the policy requirements. The core analysis is therefore based on a net developable area of 60% - apart from the West Sumners site where the actual area is used.

**Table 9.3 Modelling Assumptions**

			Units	Modelled Area	Net Density units/ha	Net Area ha	m2/ net ha	Units/ Gross ha	Net Developable %
1	East of Harlow - North	EFDC	750	35.71	35.00	21.43	3,236	5.95	60.00%
2	East of Harlow - South	HBC	2,600	123.81	35.00	74.29	3,090	10.88	60.00%
3	Lutton Priory	EFDC	1,050	50.00	35.00	30.00	3,235	13.78	60.00%
4	Water Lane - W Katherines	EFDC	1,331	63.38	35.00	38.03	3,236	18.40	60.00%
5	Water Lane - W Summers	EFDC	807	36.04	35.00	23.06	3,234	22.39	63.98%
6	Gilston - Villages 1-6	EHDC	8,500	404.76	35.00	242.86	3,207	8.50	60.00%
7	Gilston - Villages 7	EHDC	1,500	71.43	35.00	42.86	3,207	12.50	60.00%

Source: HDH (February 2019)

- 9.10 Through the February 2019 consultation some of the areas used were questioned. The modelling is based on the areas of the whole allocations rather than ownerships and sub areas. The net and gross areas of the final schemes brought forward may be different to the above, however in a high-level assessment of this type it is necessary to base the modelling and analysis on relatively simple assumptions that are based on a policy compliant scheme.

- 9.11 The treatment of the Epping Forest SANG<sup>92</sup> was discussed<sup>93</sup> through the February 2019 consultation, particularly in relation to the West Sumner's site. Further work is underway which will quantify the requirements for a SANG. At the time of this report (March 2019) it is not known whether an on-site SANG will be required, and if it is required how big it would be. The modelling assumes that there is not a SANG on this site (although we acknowledge the site promoter is currently assuming it will be). If an area of SANG is included, this could have the effect of reducing the developable area and the number of units. This may have the impact of reducing the ability of the site to bear strategic infrastructure and mitigation costs.

### Older People's Housing

- 9.12 A private sheltered/retirement and an extracare scheme have been modelled, each on a 0.5ha site as follows.
- a. A private sheltered/retirement scheme of 20 x 1 bed units of 50m<sup>2</sup> and 25 x 2 bed units of 75m<sup>2</sup> to give a net saleable area (GIA) of 2,875m<sup>2</sup>. We have assumed a further 20% non-saleable service and common areas to give a scheme GIA of 3,594m<sup>2</sup>.
  - b. An extracare scheme of 36 x 1 bed units of 65m<sup>2</sup> and 24 x 2 bed units of 80m<sup>2</sup> to give a net saleable area (GIA) of 4,260m<sup>2</sup>. We have assumed a further 35% non-saleable service and common areas to give a scheme GIA of 6,554m<sup>2</sup>.

### Employment Uses

- 9.13 For this assessment, we have assessed a number of development types. We have based our modelling on the following development types:
- a. **Offices.** These are more than 250m<sup>2</sup>, will be of steel frame construction, be over several floors and will be located on larger business parks. Typical larger units are around 2,000m<sup>2</sup> – we will use this as the basis of our modelling.  
  
We have made assumptions about the site coverage and density of development on the sites. We have assumed 75% coverage on the office sites in the urban situation and 25% elsewhere. We have assumed two story construction in the business park situation, and four-story construction in the urban situation.
  - b. **Large Industrial.** Modern industrial units of over 4,000m<sup>2</sup>. There is little new space being constructed. This is used as the basis of the modelling. We have assumed 40% coverage which based on the single storey construction.

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<sup>92</sup> Suitable Alternative Natural Greenspace

<sup>93</sup> West Sumners

- c. **Small Industrial.** Modern industrial units of 400m<sup>2</sup>. We have assumed 40% coverage which based on the single storey construction.
- d. **Distribution.** These will normally be on a business park and be of simple steel frame construction, the walls will be of block work and insulated cladding and there will be a small office area. Typical small units in the area are around 4,000m<sup>2</sup> – we will use this as the basis of our modelling.

9.14 We have not looked at the plethora of other types of commercial and employment development beyond office and industrial/storage uses in this assessment.



## 10. Residential Appraisal Results

- 10.1 At the start of this chapter it is important to stress that the results of the appraisals do not, in themselves, determine policy. The results of this assessment are one of a number of factors that the Councils will consider, including the need for infrastructure and other available evidence, such as the Councils' track record in delivering affordable housing and collecting payments under s106.
- 10.2 The appraisals use the residual valuation approach – that is, they assess the value of the site after taking into account the costs of development, the income from sales and/or rents and a developers' return. The Residual Value represents the maximum bid for the site where the payment is made in a single tranche on the acquisition of a site. In order for the proposed development to be described as viable, it is necessary for the Residual Value to exceed the Existing Use Value (EUV) by a satisfactory margin, being the Benchmark Land Value (BLV).
- 10.3 Several sets of appraisals have been run, based on the assumptions in the previous chapters of this report, including the affordable housing requirement and developer contributions as identified by Arup in the Garden Town Infrastructure Delivery Plan (IDPs).
- 10.4 As set out above, for each of the development sites, the Residual Value is calculated. The results are set out and presented for each site and per gross hectare to allow comparison between sites. The results tables in this chapter are colour coded using a simple traffic light system:

**Green**     **Viable** – where the Residual Value per hectare exceeds the BLV per hectare (being the EUV plus the appropriate uplift to provide a landowner's premium).

**Amber**     **Marginal** – where the Residual Value per hectare exceeds the EUV but not the BLV per hectare. These sites should not be considered as viable when measured against the test set out – however, depending on the nature of the site and the owner, they may come forward.

**Red**         **Non-viable** – where the Residual Value does not exceed the EUV.

- 10.5 It is important to note that a report of this type applies assumptions that are broadly reflective of an area to make an assessment of viability. It is recognised that the fact that a site is shown as viable does not necessarily mean that it will come forward for development and vice versa. Nevertheless, the importance that is placed on viability at the plan-making stage of the planning process means that this assessment will inform the delivery of the Harlow and Gilston Garden Town.

### Base Appraisals – full policy requirements

- 10.6 These appraisals are based on the full 'policy on' scenario, including full compliance with the affordable housing policies and the full provision of the strategic infrastructure and mitigation costs (as identified through the IDP process) set out in Chapter 7 above. The full appraisals are included in **Appendix 12**.



**Table 10.1 Residential Development – Residual Value.**  
FULL POLICY REQUIREMENTS

							Area (ha)		Units	Residual Value (£)		
							Gross	Net		Gross ha	Net ha	Site
Site 1	East of Harlow - North	EFDC	Green				35.71	21.43	750	162,101	270,168	5,789,314
Site 2	East of Harlow - South	HBC	Green				123.81	74.29	2,600	518,717	864,529	64,222,164
Site 3	Latton Priory	EFDC	Green				50.00	30.00	1,050	340,575	567,626	17,028,766
Site 4	Water Lane - W Katherinees	EFDC	Mixed				63.38	38.03	1,331	191,272	318,787	12,123,012
Site 5	Water Lane - W Sumners	EFDC	Green				36.04	23.06	807	260,349	406,945	9,382,985
Site 6	Gilston - Villages 1-6	EHDC	Green				404.76	242.86	8,500	-119,698	-199,497	-48,449,161
Site 7	Gilston - Villages 7	EHDC	Green				71.43	42.86	1,500	431,575	719,291	30,826,760

Source: HDH (March 2019)

- 10.7 The results vary across the modelled sites, although this is largely due to the different assumptions around the values generated by the site and the level of the s106 developer contributions sought for strategic infrastructure and mitigation measures as well as the Councils' differing affordable housing requirements.
- 10.8 In this iteration of this assessment, the results of some of the appraisals (East of Harlow – North, Latton Priory, Water Lane – West Katherine's and West Sumners, and Gilston – Villages

1-6) are notably less good than in the previous iteration (February 2019) of this assessment. The principal variable that has changed is the timing of the infrastructure payments, with further front loading now modelled. The apportionment of the requirements across the sites has also been altered:

- a. East of Harlow – North is modelled with 25% (£8,745,000) in year one and 11% (£3,750,000) in year two.
- b. Latton Priory is modelled with 14% (£6,825,000) in year one and 12% (£6,000,000) in year two.
- c. Water Lane – West Katherines is modelled with 14% (£8,660,000) in year one and 13% (£8,475,000) in year two.
- d. Water Lane – West Sumners is modelled with 14% (£5,250,000) in year one and 13% (£5,150,000) in year two.
- e. Gilston – Village 7 is modelled with 30% (£23,500,000) in year one.

10.9 In the above results, with the exception of Gilston – Villages 1-6, all the sites generate a positive Residual Value that is over £270,000/net ha or £160,000/gross ha.

10.10 The Residual Values on East of Harlow - South are notably higher than on East of Harlow – North. The house values are similar across the area, however the southern part of the site is subject to 30% affordable and developer contributions of about £40,000/unit, and the northern part is subject to the higher affordable housing requirement of 40% and developer contributions of about £46,000/unit.

10.11 The values across the two parts of the Water Lane site are similar.

10.12 The Gilston – Villages 1-6 site requires particular mention. This is a very large site that has been assessed in this assessment as a single site. The PPG sets out how to go about a viability assessment and part of this is to assume the whole site is purchased, up front, in one lot. This works well for smaller sites, but this site is so large that this results in high cumulative interest payments over the delivery modelled. The reality is that such a large site would come forward in different phases, and this is recognised through the subdivision into villages. Each of these villages will have its own sense of place, but the requirements for infrastructure are shared and assessed over the whole of the 6 villages. This is well illustrated by comparing Gilston – Villages 1-6 to Gilston – Village 7. Both have similar policy requirements (both are in East Herts) and both have similar levels of developer contributions (about £52,500 per unit). In spite of these similarities, the results are very different.

10.13 In the further analysis set out below the Gilston – Villages 1-6 is modelled as 6 separate elements as well as a single element. In this modelling the net area is assessed at 35 units/ha and the gross area assumes a net developable area of 60%. For the purpose of this analysis is assumed that the s106 strategic infrastructure and mitigation costs are spread over each Village equally and pro-rata to the rate of development.



10.14 When considering the results of the Gilston – Villages 1-6 it is necessary to appreciate that the site is in a single ownership and that the precise phasing and delivery of the separate communities is yet to be finalised.

[illegible]

Source: HDH (March 2019)



10.15 When disaggregated, the results of the Gilston – Villages 1-6 are very much better, being around £500,000/ha.

10.16 Due to the range of site sizes it is also useful to consider the results on a per unit basis:

<b>Table 10.3 Residential Development – Residual Value as £/unit</b>	
East of Harlow - North	£7,719
East of Harlow - South	£24,701
Latton Priory	£16,218
Water Lane - W Katherines	£9,108
Water Lane - W Sumners	£11,627
Gilston - Villages 1-6	-£5,700
Gilston - Villages 7	£20,551
Gilston 1	£22,038
Gilston 2	£22,613
Gilston 3	£27,383
Gilston 4	£21,528
Gilston 5	£28,257
Gilston 6	£25,979

Source: HDH (March 2019)

10.17 The Residual Value is not a good indication of viability by itself, simply being the maximum price that a developer may bid for a parcel of land, and still make an adequate return.

10.18 In the following tables the Residual Value is compared with the BLV. The BLV being an amount over and above the EUV that is sufficient to provide the landowner with a premium, and to induce them to sell the land for development as set out in Chapter 6 above.

<b>Table 10.4 Residual Development v Benchmark Land Value</b>					
Per Gross Ha - Full Policy On					
			Alternative Use Value	Benchmark Land Value	Residual Value
Site 1	East of Harlow - North	EFDC	22,500	322,500	162,101
Site 2	East of Harlow - South	HBC	22,500	322,500	518,717
Site 3	Latton Priory	EFDC	22,500	322,500	340,575
Site 4	Water Lane - W Katherines	EFDC	315,530	585,553	191,272
Site 5	Water Lane - W Sumners	EFDC	22,500	322,500	260,349
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-119,698
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	431,575
Site 8	Gilston 1	EHDC	22,500	322,500	463,049
Site 9	Gilston 2	EHDC	22,500	322,500	474,864
Site 10	Gilston 3	EHDC	22,500	322,500	575,048
Site 11	Gilston 4	EHDC	22,500	322,500	452,089
Site 12	Gilston 5	EHDC	22,500	322,500	593,407
Site 13	Gilston 6	EHDC	22,500	322,500	545,560

Source: HDH (March 2019)

<b>Table 10.5 Residual Development v Benchmark Land Value</b>					
Per Net Ha - Full Policy On					
			Alternative Use Value	Benchmark Land Value	Residual Value
Site 1	East of Harlow - North	EFDC	22,500	322,500	270,168
Site 2	East of Harlow - South	HBC	22,500	322,500	864,529
Site 3	Latton Priory	EFDC	22,500	322,500	567,626
Site 4	Water Lane - W Katherines	EFDC	315,530	585,553	318,787
Site 5	Water Lane - W Sumners	EFDC	22,500	322,500	406,945
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-199,497
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	719,291
Site 8	Gilston 1	EHDC	22,500	322,500	771,749
Site 9	Gilston 2	EHDC	22,500	322,500	791,440
Site 10	Gilston 3	EHDC	22,500	322,500	958,413
Site 11	Gilston 4	EHDC	22,500	322,500	753,482
Site 12	Gilston 5	EHDC	22,500	322,500	989,012
Site 13	Gilston 6	EHDC	22,500	322,500	909,266

Source: HDH (March 2019)

10.19 In the above analysis the EUV is taken to be an agricultural value except in the case of Water Lane – West Katherines. Part of Water Lane – West Katherines is under glasshouses (19ha / 30%) and the remainder (that will be subject to development) is in agricultural use (44ha /

70%). As set out in Chapter 6 above, an industrial use value is attributed to the areas under glasshouses.

- 10.20 East of Harlow – North produces a Residual Value of about £160,000/ha. Whilst this is well above the EUV, it is not above the BLV. As set above, this site is modelled with 25% (£8,745,000) of the infrastructure requirements in year one and 11% (£3,750,000) of the infrastructure requirements in year two. In contrast, East of Harlow – South which is modelled with 3.5% of the infrastructure requirements in each of the first two years is shown as viable, by a substantial margin, although this is in part due to the lower affordable housing target and the lower (as £/unit) infrastructure requirements.
- 10.21 Neither part of the Water Lane site generates a Residual Value that exceeds the BLV. On West Katherines the figure is below the EUV. The West Katherines part is now modelled with 14% (£8,660,000) of the infrastructure requirements in year one and 13% (£8,475,000) in year two. The West Sumners part is now modelled with 14% (£5,250,000) of the infrastructure requirements in year one and 13% (£5,150,000) in year two.
- 10.22 Considering Gilston – Villages 1-6 as individual sites, all the sites generate a Residual Value that is over £430,000/ha. This is above the EUV and BLV.
- 10.23 As set out in Chapter 6 above, one of the site promoters<sup>94</sup> felt that the BLV value was too low and they suggested a figure of £432,000/ha (based on £175,000/acre). Whilst this position is not accepted by the Councils, if this BLV was applied, then the Latton Priory site Residual Value would be over the EUV but below the BLV.
- 10.24 This opportunity is taken to stress that the above results represent a worst-case scenario with the full infrastructure and mitigation requirements to deliver each site and the full infrastructure requirements that are required to deliver the wider Harlow and Gilston Garden Town being included within the appraisals. The modelling anticipates that the infrastructure is provided for when it is needed. No allowance is made for any external funding, for example through the Housing Infrastructure Fund (HIF) or from the Department of Transport (DoT). It is acknowledged that the site promoters are continuing to discuss the infrastructure requirements (both site-specific and Garden Town) and how they may be delivered.
- 10.25 There is no doubt that the delivery of any large site is challenging. Regardless of these results, it is recommended that the Councils continue to engage with the owners in line with the advice set out in the Harman Guidance (page 23):

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

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<sup>94</sup> Latton Priory

10.26 In this context we particularly highlight paragraph 10-006 of the PPG:

*... It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan....*

PPG 10-006-20180724

10.27 To assist the Councils a range of further appraisals have been run.

### **Varied Infrastructure Delivery**

10.28 The above analysis is based on the delivery of the strategic infrastructure and mitigation measures as set out in Table 7.4 above (where the payments due before the start of the project are brought into the first year and payments after the last year are brought into the last year). This is derived from an estimate of when the various items of infrastructure will be needed. There is a degree of front loading, that is to say that it is provided so that it is in place by the time it is needed.

10.29 The timing of the delivery has an impact on viability as the early provision results in increased interest cost. There can be some flexibility as to when infrastructure is actually delivered and whilst this may not be ideal, this may be an area where flexibility is acceptable.

10.30 In the following analysis it is assumed that infrastructure is provided through the life of the project in line with the delivery of the dwellings.

<b>Table 10.6 Residual Development v Benchmark Land Value</b>						
Per Gross Ha – Effect of Varied Infrastructure Timing						
			EUV	BLV	Residual Value	
					As Table 7.4	Pro-Rata to units
Site 1	East of Harlow - North	EFDC	22,500	322,500	162,101	263,676
Site 2	East of Harlow - South	HBC	22,500	322,500	518,717	517,949
Site 3	Latton Priory	EFDC	22,500	322,500	340,575	413,014
Site 4	Water Lane - W Katherines	EFDC	315,530	585,553	191,272	268,589
Site 5	Water Lane - W Sumners	EFDC	22,500	322,500	260,349	345,356
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-119,698	151,013
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	431,575	534,809
Site 8	Gilston 1	EHDC	22,500	322,500	463,049	463,049
Site 9	Gilston 2	EHDC	22,500	322,500	474,864	474,864
Site 10	Gilston 3	EHDC	22,500	322,500	575,048	575,048
Site 11	Gilston 4	EHDC	22,500	322,500	452,089	452,089
Site 12	Gilston 5	EHDC	22,500	322,500	593,407	593,407
Site 13	Gilston 6	EHDC	22,500	322,500	545,560	545,560

Source: HDH (March 2019)

- 10.31 The Residual Value is substantially greater when the costs of strategic infrastructure and mitigation are in line with the delivery of the units. The notable exception is East of Harlow – South where the strategic infrastructure is already anticipated to be quite even through the life of the project.
- 10.32 The improvement in the Residual Value is typically in the range of £70,000/ha and £105,000/ha. Whilst this is not sufficient to tip all the sites into the viable category, it does illustrate that, by altering the pattern of delivery, very substantial improvements to the viability of a site may be achieved, and that rather than reducing the overall requirement (for infrastructure and mitigation payments and / or affordable housing), consideration of the timings may be a way of achieving a policy compliant scheme.
- 10.33 The improvement is particularly the case where Gilston – Villages 1-6 are considered as 6 separate villages rather than as a single site.
- 10.34 Through the February 2019 consultation a developer<sup>95</sup> suggested that the cashflow may appear to be optimistic, particularly with regard to opening a site up and getting the initial

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<sup>95</sup> Gilston – Village 7

infrastructure in place. The initial assumptions are based on the Garden Town trajectory and the infrastructure shown as being delivered as it is required. On the other hand, another developer said that they anticipated a faster build out rate.

- 10.35 In this regard it is timely to have reference to the PPG that anticipates that it may be appropriate to revisit viability over the lifetime of a project.

*How should viability be reviewed during the lifetime of a project?*

*Plans should set out circumstances where review mechanisms may be appropriate, as well as clear process and terms of engagement regarding how and when viability will be reassessed over the lifetime of the development to ensure policy compliance and optimal public benefits through economic cycles.*

*Where contributions are reduced below the requirements set out in policies to provide flexibility in the early stages of a development, there should be a clear agreement of how policy compliance can be achieved over time. As the potential risk to developers is already accounted for in the assumptions for developer return in viability assessment, realisation of risk does not in itself necessitate further viability assessment or trigger a review mechanism. Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the project.*

PPG 10-009-20180724

- 10.36 The proposed development is of a very large scale and clearly the delivery of infrastructure is a key variable. It is recommended that, should the Councils flex the requirements, that consideration is given to incorporating a review process into any final planning agreements.

### **Varied Developer's Return**

- 10.37 Through the consultation various comments were made with regard to the target levels of developer's return. The approach taken is in line with paragraph 10-018-20180724 of the updated PPG that says:

*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.*

- 10.38 As set out in Chapter 7 above, in this iteration of this assessment, the developer's return is assumed to be 20% of the value of market housing (being the top end of the range suggested by the PPG) and 6% of the value of affordable housing. This may be seen as an overly cautious approach, bearing in mind the suggested range in the PPG, however does reflect the comments of consultees. Bearing in mind the range of comments made, the following analysis shows the effect of using different levels of developer's return.

**Table 10.7 Residual Development v Benchmark Land Value**

Per Goss Ha – Effect of Varied Developers' Return

			EUV	BLV	Residual Value			
					17.50%	6.00%	17.50%	20.00%
		<b>Return on Market Housing</b>						
		<b>Return on Affordable Housing</b>						
Site 1	East of Harlow - North	EFDC	22,500	322,500	238,785	149,113	162,101	51,782
Site 2	East of Harlow - South	HBC	22,500	322,500	593,036	528,182	518,717	436,764
Site 3	Latton Priory	EFDC	22,500	322,500	421,093	329,959	340,575	227,352
Site 4	Water Lane - W Katherines	EFDC	315,530	585,553	270,686	179,607	191,272	77,598
Site 5	Water Lane - W Sumners	EFDC	22,500	322,500	344,523	247,910	260,349	140,390
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-84,705	-121,743	-119,698	-164,786
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	506,027	427,102	431,575	330,595
Site 8	Gilston 1	EHDC	22,500	322,500	531,407	458,912	463,049	368,090
Site 9	Gilston 2	EHDC	22,500	322,500	545,551	470,634	474,864	377,396
Site 10	Gilston 3	EHDC	22,500	322,500	666,536	569,567	575,048	451,039
Site 11	Gilston 4	EHDC	22,500	322,500	518,219	448,113	452,089	360,077
Site 12	Gilston 5	EHDC	22,500	322,500	689,813	587,762	593,407	465,026
Site 13	Gilston 6	EHDC	22,500	322,500	631,406	540,622	545,560	429,913

Source: HDH (March 2019)

10.39 The results notably improved when a 17.5% is used – being in the middle of the range suggested in the PPG.

## Varied Contingency

- 10.40 It is a requirement of the PPG<sup>96</sup> that contingencies are considered, however, through the consultation process there was not a consensus on the approach to the contingency. This is not surprising as there are a range of approaches in this regard – for example the Harman Guidance does not refer to contingencies at all.
- 10.41 It was suggested by some consultees that a 5% contingency be applied to the construction costs in all cases. This is not accepted. It is accepted that a contingency should be included, particularly where a project is at the early stage of planning, however the contingency should reflect the potential unknown risks of a project. These unknown risks are greater where the site is a brownfield site, rather than a greenfield site so it is maintained that the differentiation should stand. In recognition of the different views expressed, a further set of appraisals has been run using a 5% contingency.

<b>Table 10.8 Residual Development v Benchmark Land Value</b>						
Per Gross Ha – Effect of 5% Contingency						
			EUV	BLV	Residual Value	
					<b>As Table 7.4</b>	<b>5% Contingency</b>
Site 1	East of Harlow - North	EFDC	22,500	322,500	162,101	102,233
Site 2	East of Harlow - South	HBC	22,500	322,500	518,717	467,578
Site 3	Latton Priory	EFDC	22,500	322,500	340,575	279,908
Site 4	Water Lane - W Katherines	EFDC	315,530	585,553	191,272	148,811
Site 5	Water Lane - W Sumners	EFDC	22,500	322,500	260,349	195,732
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-119,698	-151,749
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	431,575	376,640
Site 8	Gilston 1	EHDC	22,500	322,500	463,049	411,525
Site 9	Gilston 2	EHDC	22,500	322,500	474,864	422,949
Site 10	Gilston 3	EHDC	22,500	322,500	575,048	513,093
Site 11	Gilston 4	EHDC	22,500	322,500	452,089	402,091
Site 12	Gilston 5	EHDC	22,500	322,500	593,407	530,872
Site 13	Gilston 6	EHDC	22,500	322,500	545,560	487,546

Source: HDH (March 2019)

<sup>96</sup> Paragraph 10-012-20180724 of the PPG says:

*Costs include: ... explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.*



- 10.42 When the contingency is increased to 5% on all sites, the Residual Value falls by about £50,000/ha.
- 10.43 It is important to note that a separate contingency of up to 20% is included within the strategic infrastructure and mitigation costs.

#### **Varied Developer Contributions**

- 10.44 The initial analysis assumes that the sites fund all their own infrastructure. It would be normal for such infrastructure to be funded from a range of sources, including from County Council funds, national funding schemes (in this regard the Councils are currently working together to submit a Housing Infrastructure Fund (HIF) bid), funds raised through New Homes Bonus, Community Infrastructure Levy (CIL) and the like.
- 10.45 Whilst the above is the correct starting point of the analysis, in order to give the Councils a greater understanding of how developer contributions impact on viability, a further set of appraisals have been run in the full policy on scenario, but with varied developer contributions up to £70,000/unit. In this analysis it is assumed that the pattern of the payment of the developer contributions follows that identified through the Garden Town IDP (i.e. is front loaded).

**Table 10.9 Residual Development – Residual Value.**

## FULL POLICY REQUIREMENTS – VARIED DEVELOPER CONTRIBUTIONS

[illegible]

Source: HDH (March 2019)

- 10.46 The above indicates that generally the tipping point in terms of viability is somewhere around £40,000/unit.
- 10.47 Very approximately, an increase of £2,500/unit in developer contributions results in a fall in the Residual Value of about £40,000/ha. This is a very significant swing illustrating that a small change in the s106 costs can have a significant impact on the results of the viability testing.

#### **Varied Affordable Housing Mixes**

- 10.48 Following the February 2019 consultation, it was noted<sup>97</sup> that the mix of affordable housing can have an impact on viability. This has now been considered and a range of further appraisals run with greater and lesser levels of intermediate housing.

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<sup>97</sup> Water Lane – West Katherines

**Table 10.10 Residual Development – Residual Value.**  
**VARIED AFFORDABLE HOUSING MIXES**

			EUV	BLV	Residual Value											
					Total Affordable %			Intermediate			Affordable Rent			0%		
					0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%	110%
Site 1	East of Harlow - North	EFDC	22,500	322,500	293,161	309,575	325,989	342,403	358,817	375,231	391,645	408,059	424,473	440,887	457,301	473,715
Site 2	East of Harlow - South	HBC	22,500	322,500	493,888	510,441	526,994	543,547	560,101	576,654	593,207	609,760	626,313	642,866	659,419	675,972
Site 3	Latton Priory	EFDC	22,500	322,500	485,278	505,199	525,121	545,042	564,963	584,884	604,805	624,726	644,647	664,568	684,489	704,410
Site 4	Water Lane - W Katherine's	EFDC	315,530	585,553	329,201	347,537	365,872	384,208	402,544	420,879	439,215	457,551	475,887	494,223	512,559	530,895
Site 5	Water Lane - W Summers	EFDC	22,500	322,500	409,260	428,800	448,339	467,879	487,418	506,957	526,497	546,037	565,577	585,117	604,657	624,197
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-23,843	-11,161	1,475	13,562	25,649	37,737	49,824	61,911	74,000	86,087	98,174	110,261
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	607,991	631,699	655,407	679,114	702,822	726,530	750,238	773,946	797,654	821,362	845,070	868,778
Site 8	Gilston 1	EHDC	22,500	322,500	624,432	645,955	667,478	689,001	710,524	732,047	753,570	775,093	796,616	818,139	839,662	861,185
Site 9	Gilston 2	EHDC	22,500	322,500	639,372	661,608	683,843	706,079	728,315	749,937	771,559	793,181	814,803	836,425	858,047	879,669
Site 10	Gilston 3	EHDC	22,500	322,500	765,760	791,990	818,219	844,448	870,678	896,907	923,137	949,366	975,596	1,001,825	1,028,055	1,054,285
Site 11	Gilston 4	EHDC	22,500	322,500	610,932	632,275	653,619	674,962	696,306	717,649	738,993	760,337	781,680	803,024	824,367	845,711
Site 12	Gilston 5	EHDC	22,500	322,500	788,601	815,835	843,070	870,304	897,538	924,772	952,006	979,240	1,006,474	1,033,708	1,060,942	1,088,176
Site 13	Gilston 6	EHDC	22,500	322,500	728,115	753,214	778,313	803,413	828,512	853,611	878,711	903,810	928,910	954,009	979,109	1,004,208

Source: HDH (March 2019)

- 10.49 These results show that where the affordable housing requirement is 30%, a 10% increase in the amount of intermediate housing / 10% reduction in the amount of Affordable Rent results in, on average, an increase in the Residual Value of about £20,000/ha. Where the affordable housing requirement is 40%, a 10% increase in the amount of intermediate housing / 10% reduction in the amount of Affordable Rent results in, on average, an increase in the Residual Value of just under £30,000/ha.
- 10.50 Where viability is challenging, flexibility around the tenure mix of affordable housing sought may allow the overall affordable housing target to be achieved.

#### **Affordable Housing v Developer Contributions**

- 10.51 The essential balance for the plan-making process is the relationship between affordable housing and developer contributions. The base appraisals assume the locally appropriate (30% / 40%) affordable housing and the full strategic infrastructure and mitigation costs as informed by the most recent updated IDP.
- 10.52 In the following tables, the results of appraisals with affordable housing from 0% to 40% (on all sites – including those within Harlow) and developer contributions from £0 per unit to £70,000 per unit are set out. All other policy requirements are assumed to apply.

### Table 10.11a Affordable Housing v Varied Developer Contributions

40% Affordable Housing																			
		EUV	BLV	Residual Value	£0	£5,000	£10,000	£15,000	£20,000	£25,000	£30,000	£35,000	£40,000	£45,000	£50,000	£55,000	£60,000	£65,000	£70,000
EFDC	22,500	322,500	992,828	902,348	811,779	721,112	630,034	538,956	447,878	356,800	265,722	174,643	83,565	-8,173	-103,737	-199,302	-294,867	-390,432	-486,000
HBC	22,500	322,500	979,098	903,946	828,708	753,470	678,231	602,993	526,875	450,141	373,407	296,185	217,501	138,817	57,770	-25,554	-107,650	-193,202	-288,767
EFDC	22,500	322,500	1,150,331	1,061,709	973,016	883,813	794,609	705,406	616,203	526,999	437,796	348,592	259,389	170,185	80,982	-8,834	-102,431	-188,000	-283,567
EFDC	315,530	685,553	1,034,816	934,939	855,063	765,187	675,310	585,434	495,557	405,681	315,805	225,928	136,052	46,175	-46,071	-140,321	-234,825	-330,399	-425,958
EFDC	22,500	322,500	1,160,102	1,064,792	968,993	873,194	777,396	681,597	585,798	489,999	394,201	298,402	202,603	106,804	11,006	-89,257	-189,775	-285,341	-380,908
EHDC	22,500	322,500	591,272	523,835	456,399	388,982	321,528	254,089	186,652	119,216	51,779	-16,454	-87,213	-157,971	-228,730	-289,488	-370,247	-451,005	-531,562
EHDC	22,500	322,500	1,316,035	1,230,904	1,145,773	1,060,642	975,511	890,380	805,250	720,119	634,459	548,514	462,568	376,623	290,677	204,732	118,371	26,714	1,011
EHDC	22,500	322,500	1,175,998	1,088,780	1,041,561	974,343	907,125	839,003	770,889	702,374	633,454	563,823	494,192	423,307	352,116	279,732	206,714	134,276	61,718
EHDC	22,500	322,500	1,204,087	1,135,873	1,066,820	997,766	928,713	859,660	789,678	719,419	649,160	578,248	506,536	434,824	361,657	288,219	213,276	140,293	67,305
EHDC	22,500	322,500	1,442,966	1,360,880	1,278,793	1,196,707	1,114,190	1,030,572	946,957	863,340	779,724	696,107	612,491	527,154	441,452	355,750	270,049	195,000	120,000
EHDC	22,500	322,500	1,451,279	1,365,782	1,280,168	1,196,076	1,114,190	1,030,572	946,957	863,340	779,724	696,107	612,491	527,154	441,452	355,750	270,049	195,000	120,000
EHDC	22,500	322,500	1,151,275	1,085,720	1,020,168	954,268	887,730	821,194	754,658	687,173	619,458	551,736	482,624	413,513	343,191	272,444	200,048	127,541	55,044
EHDC	22,500	322,500	1,487,530	1,402,766	1,318,003	1,233,240	1,148,476	1,063,713	977,395	890,331	804,467	718,002	631,538	545,074	458,239	369,390	280,541	195,541	110,541
EHDC	22,500	322,500	1,371,352	1,293,264	1,214,683	1,136,102	1,057,520	978,939	900,357	821,545	742,931	661,148	580,949	500,750	418,838	336,584	254,329	172,329	90,329
35% Affordable Housing																			
		EUV	BLV	Residual Value	£0	£5,000	£10,000	£15,000	£20,000	£25,000	£30,000	£35,000	£40,000	£45,000	£50,000	£55,000	£60,000	£65,000	£70,000
EFDC	22,500	322,500	1,077,881	987,356	896,832	806,307	721,112	624,183	533,105	442,027	350,949	259,870	168,792	77,714	-14,312	-109,877	-205,441	-301,015	-406,580
HBC	22,500	322,500	1,054,277	979,080	903,842	828,603	753,365	678,127	602,477	525,743	449,009	372,275	294,147	215,463	136,104	54,967	-29,811	-79,585	-129,359
EFDC	22,500	322,500	1,246,455	1,157,833	1,069,210	980,860	901,663	817,459	732,256	656,448	584,052	514,895	444,896	375,646	286,442	177,239	88,035	-1,433	-5,467
EFDC	315,530	685,553	1,125,783	1,035,907	946,030	856,074	766,277	676,401	586,525	496,648	406,772	318,895	237,619	137,143	47,266	-44,872	-139,176	-234,252	-329,328
EFDC	22,500	322,500	1,257,904	1,162,631	1,066,896	971,097	875,299	779,500	683,701	587,902	492,104	396,305	300,506	204,707	108,909	13,110	-87,049	-182,128	-277,197
EHDC	22,500	322,500	646,820	579,384	511,947	444,511	377,074	309,638	242,201	174,764	107,328	39,891	-28,928	-99,686	-170,445	-241,203	-311,962	-383,720	-455,479
EHDC	22,500	322,500	1,423,158	1,338,027	1,252,896	1,167,766	1,082,635	997,504	912,373	827,242	742,029	656,083	570,138	484,192	398,247	312,301	226,356	140,409	64,460
EHDC	22,500	322,500	1,273,011	1,205,792	1,138,574	1,071,356	1,004,137	936,360	868,045	799,731	731,416	671,911	602,790	525,531	451,340	380,149	307,554	230,933	163,302
EHDC	22,500	322,500	1,303,055	1,234,920	1,165,867	1,096,814	1,027,761	958,708	889,192	818,933	748,614	678,415	606,949	535,237	463,453	390,015	316,577	239,100	165,622
EHDC	22,500	322,500	1,559,036	1,475,950	1,394,863	1,312,777	1,230,690	1,147,073	1,063,457	979,840	896,224	812,607	728,991	645,182	559,480	473,779	388,077	296,077	204,048
EHDC	22,500	322,500	1,246,482	1,180,992	1,115,372	1,049,678	983,139	916,603	850,068	787,175	715,403	647,688	571,476	504,365	441,254	370,618	299,871	219,871	140,871
EHDC	22,500	322,500	1,606,728	1,521,965	1,437,201	1,352,438	1,267,951	1,182,911	1,097,234	1,010,769	930,265	837,841	751,376	664,912	578,448	491,253	402,404	312,404	222,404
EHDC	22,500	322,500	1,482,258	1,404,230	1,325,649	1,247,068	1,168,466	1,089,905	1,011,324	932,742	853,122	772,923	692,724	612,526	532,262	450,007	367,753	285,503	203,503
30% Affordable Housing																			
		EUV	BLV	Residual Value	£0	£5,000	£10,000	£15,000	£20,000	£25,000	£30,000	£35,000	£40,000	£45,000	£50,000	£55,000	£60,000	£65,000	£70,000
EFDC	22,500	322,500	1,162,933	1,072,409	981,884	891,359	800,488	709,410	618,332	527,254	436,176	345,097	254,019	162,941	71,863	-20,451	-116,016	-211,081	-316,146
HBC	22,500	322,500	1,129,452	1,054,214	978,976	903,737	828,499	753,261	678,023	601,543	524,611	447,877	370,793	292,109	213,425	134,202	55,089	-15,089	-65,149
EFDC	22,500	322,500	1,342,579	1,253,957	1,165,334	1,076,327	987,123	897,920	808,716	719,513	630,309	541,106	451,902	362,698	273,495	184,292	95,089	5,089	-45,089
EFDC	315,530	685,553	1,216,750	1,126,874	1,036,997	947,121	857,245	767,467	672,692	582,915	493,138	407,863	317,986	228,110	138,234	48,357	-43,728	-93,728	-143,728
EFDC	22,500	322,500	1,355,707	1,260,434	1,164,799	1,069,000	973,201	877,403	781,604	685,805	590,006	494,208	398,409	302,610	206,811	111,013	15,214	1,214	12,214
EHDC	22,500	322,500	702,369	634,932	567,496	500,059	432,623	365,186	297,749	230,313	162,876	95,440	28,003	-41,401	-112,160	-182,919	-253,677	-324,436	-395,195
EHDC	22,500	322,500	1,530,282	1,445,151	1,360,020	1,274,889	1,189,758	1,104,627	1,019,496	934,365	849,234	763,653	677,707	591,762	505,816	419,871	333,925	249,974	165,023
EHDC	22,500	322,500	1,370,023	1,302,805	1,235,587	1,168,369	1,101,150	1,033,716	965,401	897,087	828,772	759,980	690,349	620,717	550,564	479,373	408,182	336,991	265,799
EHDC	22,500	322,500	1,402,024	1,333,952	1,264,915	1,195,862	1,126,809	1,057,756	988,702	918,447	848,188	777,929	707,362	635,650	563,938	491,810	418,373	345,946	273,019
EHDC	22,500	322,500	1,675,061	1,593,019	1,510,933	1,428,846	1,346,760	1,263,573	1,179,957	1,096,340	1,012,724	928,108	845,491	761,875	671,609	591,807	506,103	421,303	336,603
EHDC	22,500	322,500	1,341,688	1,276,134	1,210,579	1,145,025	1,078,548	1,012,013	945,477	878,941	811,347	743,632	675,918	607,217	538,100	468,793	398,046	326,521	254,021
EHDC	22,500	322,500	1,725,926	1,641,163	1,556,400	1,471,636	1,386,874	1,302,110	1,217,072	1,130,608	1,044,144	957,679	871,215	784,751	698,286	611,922	527,467	442,517	357,567
EHDC	22,500	322,500	1,593,132	1,515,197	1,436,615	1,358,034	1,279,452	1,200,871	1,122,290	1,043,708	964,987	884,698	804,301	724,601	644,102	563,431	481,176	400,176	319,176

Source: HDH (March 2019)

Table 10.11b Affordable Housing v Varied Developer Contributions

25% Affordable Housing																	
		EUV	BLV	Residual Value													
				£0	£5,000	£10,000	£15,000	£20,000	£25,000	£30,000	£35,000	£40,000	£45,000	£50,000	£55,000	£60,000	£70,000

Source: HDH (March 2019)

Table 10.11c Affordable Housing v Varied Developer Contributions

10% Affordable Housing																				
			EUV	BLV	Residual Value															
					£0	£5,000	£10,000	£15,000	£20,000	£25,000	£30,000	£35,000	£40,000	£45,000	£50,000	£55,000	£60,000	£65,000	£70,000	
Site 1	East of Harlow - North	22,500	322,500	1,503,142	1,412,618	1,322,093	1,231,568	1,141,043	1,050,518	959,940	868,162	777,083	686,005	594,927	503,849	412,771	321,693	230,615	139,537	
Site 2	East of Harlow - South	22,500	322,500	1,429,988	1,354,750	1,279,512	1,204,273	1,129,035	1,053,797	978,558	903,320	827,018	750,284	673,550	596,816	520,009	441,325	362,641	281,357	
Site 3	Latton Priory	22,500	322,500	1,727,075	1,638,453	1,549,830	1,461,207	1,372,584	1,283,961	1,195,338	1,106,715	1,018,092	929,469	840,846	752,223	663,600	574,977	486,354	397,731	
Site 4	Water Lane - W. Katherinees	315,530	585,530	1,580,619	1,490,743	1,400,866	1,310,990	1,221,114	1,131,237	1,041,361	951,484	861,608	771,732	681,855	591,979	502,102	412,226	322,350	232,474	
Site 5	Water Lane - W. Summers	22,500	322,500	1,746,918	1,651,645	1,556,372	1,460,612	1,364,813	1,269,014	1,173,216	1,077,417	981,618	885,819	790,021	694,222	598,423	502,624	406,826	316,928	
Site 6	Gilston - Villages 1-6	22,500	322,500	924,563	857,126	789,690	722,253	654,816	587,380	519,943	452,507	385,070	317,634	250,197	182,761	115,324	47,888	-20,538	-90,088	
Site 7	Gilston - Villages 7	22,500	322,500	1,958,774	1,873,643	1,788,512	1,703,381	1,618,250	1,533,119	1,447,988	1,362,857	1,277,726	1,192,595	1,107,464	1,022,333	937,202	852,071	766,940	681,809	
Site 8	Gilston 1	22,500	322,500	1,758,075	1,680,857	1,603,638	1,526,420	1,449,202	1,371,984	1,294,766	1,217,548	1,140,330	1,063,112	985,894	908,676	831,458	754,240	677,022	599,804	
Site 9	Gilston 2	22,500	322,500	1,797,898	1,729,827	1,661,756	1,593,685	1,525,614	1,457,543	1,389,472	1,321,401	1,253,330	1,185,259	1,117,188	1,049,117	981,046	912,975	844,904	776,833	
Site 10	Gilston 3	22,500	322,500	2,139,385	2,057,298	1,975,212	1,893,126	1,811,039	1,728,953	1,645,867	1,562,781	1,480,695	1,398,609	1,316,523	1,234,437	1,152,351	1,070,265	988,179	906,092	
Site 11	Gilston 4	22,500	322,500	1,722,517	1,656,962	1,591,407	1,525,852	1,460,297	1,394,742	1,329,187	1,263,632	1,198,077	1,132,522	1,066,967	1,001,412	935,857	870,302	804,747	739,192	
Site 12	Gilston 5	22,500	322,500	2,202,720	2,117,957	2,033,194	1,948,430	1,863,667	1,778,904	1,694,140	1,609,377	1,524,614	1,439,851	1,355,088	1,270,325	1,185,562	1,100,799	1,026,036	951,273	
Site 13	Gilston 6	22,500	322,500	2,036,790	1,959,061	1,880,480	1,801,898	1,723,317	1,644,736	1,566,154	1,487,573	1,408,992	1,330,410	1,251,829	1,173,248	1,094,667	1,016,086	937,505	858,924	
0% Affordable Housing																				
			EUV	BLV	Residual Value															
					£0	£5,000	£10,000	£15,000	£20,000	£25,000	£30,000	£35,000	£40,000	£45,000	£50,000	£55,000	£60,000	£65,000	£70,000	
Site 1	East of Harlow - North	22,500	322,500	1,673,247	1,582,722	1,492,197	1,401,672	1,311,147	1,220,622	1,129,097	1,038,572	948,047	857,522	766,997	676,472	585,947	495,422	404,897	314,372	
Site 2	East of Harlow - South	22,500	322,500	1,580,256	1,505,018	1,429,779	1,354,541	1,279,303	1,204,065	1,128,827	1,053,589	978,351	903,113	827,875	752,637	677,400	602,162	526,924	451,686	
Site 3	Latton Priory	22,500	322,500	1,919,323	1,830,701	1,742,078	1,653,455	1,564,832	1,476,209	1,387,586	1,298,963	1,210,340	1,121,717	1,033,094	944,471	855,848	767,225	678,602	589,979	
Site 4	Water Lane - W. Katherinees	315,530	585,530	1,762,429	1,672,677	1,582,925	1,493,173	1,403,421	1,313,669	1,223,917	1,134,165	1,044,413	954,661	864,909	775,157	685,405	595,653	505,901	416,149	
Site 5	Water Lane - W. Summers	22,500	322,500	1,942,524	1,847,250	1,751,977	1,656,704	1,561,431	1,466,158	1,370,885	1,275,612	1,180,339	1,085,066	989,793	894,520	809,247	713,974	628,701	543,428	
Site 6	Gilston - Villages 1-6	22,500	322,500	1,035,660	968,223	900,787	833,350	765,913	698,477	631,040	563,603	496,167	428,731	361,294	293,858	226,421	158,984	91,548	-17,908	
Site 7	Gilston - Villages 7	22,500	322,500	2,173,020	2,087,889	2,002,758	1,917,627	1,832,496	1,747,365	1,662,234	1,577,103	1,491,972	1,406,841	1,321,710	1,236,579	1,151,448	1,066,317	981,186	896,055	
Site 8	Gilston 1	22,500	322,500	1,952,100	1,884,882	1,817,664	1,750,446	1,683,227	1,616,009	1,548,791	1,481,573	1,414,355	1,347,137	1,279,919	1,212,701	1,145,483	1,078,265	1,011,047	943,829	
Site 9	Gilston 2	22,500	322,500	1,995,835	1,927,764	1,859,693	1,791,622	1,723,551	1,655,480	1,587,409	1,519,338	1,451,267	1,383,196	1,315,125	1,247,054	1,178,983	1,110,912	1,042,841	974,770	
Site 10	Gilston 3	22,500	322,500	2,371,525	2,289,438	2,207,351	2,125,264	2,043,177	1,961,090	1,878,999	1,796,908	1,714,817	1,632,726	1,550,635	1,468,544	1,386,453	1,304,362	1,222,271	1,140,180	
Site 11	Gilston 4	22,500	322,500	1,912,930	1,847,376	1,781,821	1,716,266	1,650,712	1,585,157	1,519,602	1,454,047	1,388,492	1,322,937	1,257,382	1,191,827	1,126,272	1,060,717	995,162	929,607	
Site 12	Gilston 5	22,500	322,500	2,441,117	2,356,354	2,271,590	2,186,827	2,102,064	2,017,300	1,932,537	1,847,774	1,763,010	1,678,247	1,593,484	1,508,721	1,423,958	1,339,195	1,254,432	1,169,669	
Site 13	Gilston 6	22,500	322,500	2,258,603	2,180,993	2,102,412	2,023,831	1,945,249	1,866,668	1,788,087	1,709,506	1,630,924	1,552,343	1,473,761	1,395,180	1,316,599	1,238,018	1,159,437	1,080,856	

Source: HDH (March 2019)



- 10.53 As would be expected, as the level of affordable housing is reduced, the sites' ability to bear developer contributions improves. This will give the Councils confidence that the sites are deliverable.
- 10.54 In the previous analysis it was identified that an increase of £2,500/unit in developer contributions results in a fall in the Residual Value of about £40,000/ha. This analysis now shows that a 5% increase in the affordable housing, results in a fall in the Residual Value of about £70,000/ha. It is clear that when changes are made to both the affordable housing requirements and s106 requirements, the changes in the Residual Value can be very significant.

### **Self and Custom Build**

- 10.55 East Herts has a policy (Policy HOU8 Self-Build and Custom Build Housing) requiring 1% requirement on sites of 200 units and larger. This has been tested. It is assumed that this policy will be implemented on a 'whole plot' basis, so sites over 200 units would be required to provide 2 plot, sites over 300 units would be required to provide 3 plots and so on.
- 10.56 If a developer is to sell a plot as a serviced self-build plot they would not receive the profit from building the unit, they would however receive the price for the plot. If they were to provide the plot as a custom-build plot (i.e. where the developer designs and builds to the buyer's design and specifications) they would receive a payment for the land, the costs of construction and the price paid would incorporate the developer's return. The impact on viability is therefore the balance between the profit foregone and the receipt for the serviced plot.
- 10.57 As set out in Chapter 7 above, the developer's return is calculated as 17.5% of the value of market housing and 6% of the value of affordable housing. This varies from site to site but is typically around £65,000/unit sold – that is to say the analysis assumes the profit for the developer is about £65,000/unit.
- 10.58 As set out in Chapter 6 above, a review of development land values has been undertaken. This varies from site to site but is typically around £100,000/unit sold, but on some smaller sites is very much higher than this.
- 10.59 The modelling in the Viability Assessment is based on 35 units per net ha with allowance for open space. On this basis, a self-build plot is likely to be about 0.03ha or so. A plot price of £100,000 would give to a land value of over £3,000,000/ha<sup>98</sup>. This is substantially above the BLV and allows plenty of scope for the services to be laid on to the plot or plots. It is also well above the developer's return of £65,000 or so that would be forgone from developing the unit.

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<sup>98</sup> It is not suggested that estate housing generates values of this level – this is the level based on values of small building sites for sale more widely.

10.60 Based on the above analysis it is unlikely that a requirement for self-build plots will adversely impact on viability.

### Older People's Housing

10.61 As well as mainstream housing, we have considered the sheltered and extracare sectors separately. All the Councils are seeking a mix of housing to be delivered from these large Harlow and Gilston Garden Town sites.

10.62 The policies, as drafted, are not prescriptive in this regard as to the amount of such specialist housing to be included in the sites. Appraisals are run with both the 30% and 40% affordable housing targets at a range of developer contributions.

10.63 The results of these are summarised as follows. The full appraisals (with 40% affordable housing) are set out in **Appendix 13** below:

<b>Table 10.12 Older People's Housing, Appraisal Results (£/ha)</b>						
	EUV	BLV	Residual Value			
Developer Contribution			Sheltered		Extracare	
£/unit			30%	40%	30%	40%
<b>£0</b>	22,500	322,500	5,298,913	4,101,382	4,944,985	3,419,665
<b>£5,000</b>	22,500	322,500	4,884,581	3,687,050	4,396,222	2,870,901
<b>£10,000</b>	22,500	322,500	4,470,249	3,272,718	3,847,458	2,322,138
<b>£15,000</b>	22,500	322,500	4,055,917	2,858,386	3,298,695	1,773,375
<b>£20,000</b>	22,500	322,500	3,641,585	2,444,054	2,749,932	1,224,612
<b>£25,000</b>	22,500	322,500	3,227,253	2,029,722	2,201,169	675,848
<b>£30,000</b>	22,500	322,500	2,812,921	1,615,390	1,652,405	112,656
<b>£35,000</b>	22,500	322,500	2,398,589	1,201,058	1,103,642	-463,140
<b>£40,000</b>	22,500	322,500	1,984,257	786,726	554,879	-1,038,936
<b>£45,000</b>	22,500	322,500	1,569,924	368,695	-14,273	-1,630,496
<b>£50,000</b>	22,500	322,500	1,155,592	-64,694	-590,069	-2,222,981
<b>£55,000</b>	22,500	322,500	741,260	-499,437	-1,166,632	-2,815,465
<b>£60,000</b>	22,500	322,500	321,912	-937,499	-1,759,117	-3,413,738
<b>£65,000</b>	22,500	322,500	-112,399	-1,384,845	-2,351,602	-4,014,105
<b>£70,000</b>	22,500	322,500	-547,141	-1,832,192	-2,944,086	-4,614,472

Source: HDH (March 2019)

10.64 The above analysis assumes that specialist older people's housing would be subject to similar levels of developer contributions (when calculated on a £/unit basis) as general housing. This is unlikely as such housing does not normally contribute to education.

- 10.65 This analysis shows that, at around £40,000 per unit of developer contributions, most schemes are likely to produce a Residual Value (on a £/ha basis) that is comparable to general housing. From this it can be concluded that the presence of specialist older people's housing is unlikely to impact seriously on viability and the delivery of the large Harlow and Gilston Garden Town sites.

### **Conclusions**

- 10.66 The results in themselves do not determine policy. The consequences of these results are discussed in Chapter 12 below.





## 11. Non-Residential Appraisals

- 11.1 The preceding chapters set out the assumptions for the non-residential development appraisals. Based on the assumptions set out previously, a set of appraisals have been run for the non-residential development types. The detailed appraisal results are set out in **Appendix 14** and summarised in the table below.
- 11.2 As with the residential appraisals, the Residual Valuation approach is used. The appraisals assess the value of the site after taking into account the costs of development, the likely income from sales and/or rents, and an appropriate amount of developers' profit. The payment would represent the sum paid in a single tranche on the acquisition of a site. In order for the proposed development to be described as viable, it is necessary for this value to exceed the EUV for the site by a satisfactory margin (the BLV).
- 11.3 When testing the non-residential development types, multiple sets of appraisals for different levels of policy requirement have not been run as the Councils do not seek to impose layers of policy requirements on these types of development. Further, when it comes to developer contributions it is assumed that these will be borne entirely by residential development.
- 11.4 All the Councils are seeking a mix of uses to be delivered from these large Harlow and Gilston Garden Town sites. The policies, as drafted, are not prescriptive in this regard as to the amount of other uses to be included in the sites.

## Employment Uses

Table 11.1 Appraisal Results showing Approximate Residual Value					
Employment Uses					
			Offices - Park	Larger Industrial	Smaller Industrial
	CIL	£/m2	0	0	0
Income	m2		2,000	4,000	400
	£/m2		3,358	1,650	1,650
	<b>Capital Value</b>		<b>6,044,400</b>	<b>6,270,000</b>	<b>660,000</b>
	Buyers Costs	4.50%	271,998	282,150	29,700
	<b>Capital Value</b>		<b>5,772,402</b>	<b>5,987,850</b>	<b>630,300</b>
Costs	Land Used	Coverage	50%	40%	40%
		ha	0.400	1.000	0.100
		£/ha	22,500	22,500	22,500
		Uplift £/ha	300,000	300,000	300,000
		20.00%	4,500	0	0
		<b>Site Cost</b>	<b>130,800</b>	<b>322,500</b>	<b>32,250</b>
			<b>0</b>		
	Stamp Duty (on VT)	4.00%	5,232	12,900	1,290
	Acquisition	1.50%	1,962	4,838	484
	Strategic Promotion		0	0	0
	Pre Planning		10,000	10,000	10,000
			0		
	Construction	/m2	1,707	986	1,108
		£	3,414,000	3,944,000	443,200
	Infrastructure	15.00%	512,100	591,600	66,480
	Abnormals	5.00%	0	0	0
	Fees	8.00%	314,088	362,848	40,774
	S106		0	0	0
	<b>CIL</b>		<b>0</b>	<b>0</b>	<b>0</b>
	Contingency	2.5%	98,153	113,390	12,742
	Finance Costs		200,000	300,000	100,000
	Sales	2.50%	75,555	78,375	8,250
	Misc. Financial		10,000	10,000	10,000
	<b>Subtotal</b>		<b>4,641,090</b>	<b>5,427,951</b>	<b>693,220</b>
	Interest	7.00%	139,233	162,839	20,797
	Profit % GDC	20.00%	865,860	898,178	94,545
			0.00%	0.00%	0.00%
	<b>COSTS</b>		<b>5,646,182</b>	<b>6,488,967</b>	<b>808,562</b>
			<b>0</b>		
	<b>Residual Land Worth</b>	<b>Site</b>	<b>126,220</b>	<b>-501,117</b>	<b>-178,262</b>
	Existing Use Value	£/ha	22,500	22,500	22,500
	Viability Threshold	£/ha	327,000	322,500	322,500
	<b>Residual Value</b>	<b>£/ha</b>	<b>315,549</b>	<b>-501,117</b>	<b>-1,782,618</b>

Source: HDH (February 2019)

- 11.5 Office development is not shown as viable, but it is coming forward on the ground. Similarly, industrial development is shown as being unviable. The results are not reflective of the local market where development for employment uses is coming forward. Where development is coming forward (and it is coming forward), it tends to be from existing businesses for

operational reasons – rather than to make a return through property development (i.e. speculative development).

- 11.6 It is notable that agents operating in the local market have reported that, over the two years or so, that there has been a change in sentiment and an improvement in the market, and that this is expected to continue.
- 11.7 The analysis in this report is carried out in line with the Harman Guidance and in the context of the NPPF and PPG. It assumes that development takes place for its own sake and is a goal in its own right. It assumes that a developer buys land, develops it and then disposes of it, in a series of steps with the sole aim of making a profit from the development. As set out in Chapters 2 and 3 above, the Guidance does not reflect the broad range of business models under which developers and landowners operate. Some landowners have owned land for many years and are building a broad income stream over multiple properties. Such owners are able to release land for development at less than the arms-length value and still make a good return relative to the existing use of the site, having taken a long-term view as to the direction of the market based on the prospects of an area and wider economic factors. Much of the development coming forward in the area is 'user led' being brought forward by businesses that will use the eventual space for operational uses, rather than for investment purposes.
- 11.8 Some office and industrial/distribution development is challenging in the current market, but it is improving. We would urge caution in relation to setting policy requirements for employment uses that would unduly impact on viability.

## Conclusions

- 11.9 The results in themselves do not determine policy. The consequences of these results are discussed in Chapter 12 below.





## 12. Conclusions and findings

- 12.1 This final chapter is written as a non-technical summary and brings the research, analysis and findings together.

### Scope

- 12.2 Harlow Council (HC), East Hertfordshire District Council (EHDC), Epping Forest District Council (EFDC), Hertfordshire County Council (HCC) and Essex County Council (ECC) are working together to bring forward the Harlow and Gilston Garden Town. This Viability Assessment has been commissioned to assess the deliverability of the four key sites in the Harlow and Gilston Garden Town.
- a. **East of Harlow** located in Harlow and Epping Forest. Total estimated number of dwellings – 3,350
  - b. **Latton Priory** located in Epping Forest. Total estimated number of dwellings – 1,050
  - c. **Water Lane Area** located in Epping Forest. Total estimated number of dwellings – 2,500
  - d. **Gilston Area** located in East Hertfordshire. Total estimated number of dwellings – 10,000 (of which at least 3,050 will be delivered in the plan-period).
- 12.3 HDH Planning & Development Ltd and Arup have been appointed to provide a high-level viability assessment for each of the four new Garden Communities in order to determine the maximum level of developer contributions to be sought, allowing delivery of the sites to remain viable.
- 12.4 The core of this report is the assessment of the ability of the key Harlow Garden Town sites to bear the costs of the strategic infrastructure and mitigation. Outside this report, the Councils are updating the Infrastructure Delivery Plan(s) (IDP). The information from the updated IDP is used in this assessment.

### General Caveat

- 12.5 Some of the conclusions and recommendations contained in this report are based upon information provided by others (including the Councils and consultees) and upon the assumption that all relevant information has been provided by those parties from whom it has been requested. Information obtained from third parties has not been independently verified by HDH Planning & Development Ltd or Arup, unless otherwise stated in the report. The conclusions and recommendations contained in this report are concerned with policy requirement, guidance and regulations which may be subject to change. They reflect a Chartered Surveyor's perspective and do not reflect or constitute legal advice.
- 12.6 No part of this report constitutes a valuation and the report should not be relied on in that regard.

## Compliance

- 12.7 HDH Planning & Development Ltd is a firm regulated by the Royal Institution of Chartered Surveyors. It is therefore necessary to have regard to RICS Professional Standards and Guidance. For the purpose of this assessment there are two principle pieces of relevant guidance, the *Draft Financial viability in planning: conduct and reporting RICS professional statement, England* (October 2018) and *Financial Viability in planning (1st edition), RICS guidance note* (2012).
- 12.8 Reference is made to *Financial Viability in planning (1st edition), RICS guidance note* (2012), although it is important to note that this Guidance is subject to a full review to reflect the changes in the 2019 NPPF and the updated PPG (July 2018) so relatively little weight is given to this. *Draft Financial viability in planning: conduct and reporting RICS professional statement, England* (October 2018) is in draft form however this opportunity is taken (in the spirit of the draft) to confirm compliance with it.
- 12.9 This chapter is a non-technical summary of the assessment.

## Viability Testing

- 12.10 The requirement to assess viability forms part of the National Planning Policy Framework (NPPF). Over several years, in the run up to this report, various national consultations have been carried out with regard to different aspects of the plan-making process. These included references to, and sections on, viability. The NPPF and the viability sections of the Planning PPG were updated in July 2018 replacing the earlier documents.

### *National Planning Policy Framework*

- 12.11 As in the 2012 NPPF, viability remains a core area of the plan-making process. The 2019 NPPF does not include detail on the viability process, rather stresses the importance of viability. The core requirement is that the planned development is deliverable, however the 2019 NPPF does not include technical guidance on undertaking viability work. This is included within the PPG that was also updated in July 2018.

### *Planning Practice Guidance*

- 12.12 The viability sections of the PPG have been completely rewritten. The changes provide clarity and confirm best practice, rather than prescribe a new approach or methodology. The overall requirement is that ‘...*policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106...*’.
- 12.13 This assessment takes a proportionate approach, building on the three Councils’ existing evidence, and considers all the local and national policies that will apply to new development.

- 12.14 The delivery of strategic infrastructure has been tested against other policy requirements such as affordable housing.
- 12.15 The general principles of viability testing are set out, and are based on 'standardised inputs'. The PPG sets out how land values should be considered, prescribing the use of the Existing Use Value Plus (EUV+) approach.

*To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+).*

PPG 10-013-20180724

- 12.16 The judgement of the amount of landowner's premium is at the core of this assessment. In line with the PPG, the approach adopted in this assessment is to start with the EUV. The 'plus' element is informed by the price paid for policy compliant schemes to ensure a reasonable landowner's premium.

#### *Community Infrastructure Levy Regulations and Guidance*

- 12.17 Whilst none of the Councils have adopted CIL, the CIL Regulations are broad, so it is necessary to have regard to the CIL Regulations and CIL Guidance (which is contained within the PPG) when considering the delivery of the development.
- 12.18 Viability testing in the context of CIL is to assess the 'effects' on development. The financial impact of introducing CIL is an important factor, but the provision of infrastructure (or lack of it) will also have an impact on the ability of the Councils to meet their objectives through development and deliver their Development Plans.
- 12.19 From April 2015, councils have been restricted in relation to pooling S106 contributions from more than five developments (where the obligation in the s106 agreement / undertaking is a reason for granting consent). This restriction encourages councils to adopt CIL. The Councils can still raise additional s106 funds for infrastructure, provided this infrastructure can be directly linked to the site-specific needs associated with the scheme in question, and that it is not for infrastructure specifically identified to be funded by CIL, through the Regulation 123 List. Payments requested under the s106 regime must be (as set out in CIL Regulation 122):
- necessary to make the development acceptable in planning terms;
  - directly related to the development; and
  - fairly and reasonably related in scale and kind to the development.

#### **Viability Guidance**

- 12.20 There is no specific technical guidance on how to test the viability in the 2019 NPPF or the updated PPG, although the updated PPG includes a guidance in a number of specific areas



and sets out the general principles. There are several sources of guidance and appeal decisions that support the methodology HDH has developed and is used here. This assessment follows the *Viability Testing in Local Plans – Advice for planning practitioners* (LGA/HBF – Sir John Harman) June 2012.

- 12.21 Planning appeal decisions and the HCA good practice publication, suggest that the most appropriate test of viability for planning policy purposes is to consider the Residual Value of schemes compared with the EUV, plus a premium. The premium over and above the EUV being set at a level to provide the landowner with the inducement to sell. The Harman Guidance and *Financial viability in planning, RICS guidance note, 1st edition* (GN 94/2012) which was published during August 2012 set out the principles of viability testing. Additionally, the Planning Advisory Service (PAS) provides viability guidance and manuals for local authorities.
- 12.22 In line with the updated PPG this assessment follows the EUV Plus (EUV+) methodology. The methodology adopted is to compare the Residual Value generated by the viability appraisals, with the EUV plus an appropriate uplift to incentivise a landowner to sell. The amount of the uplift over and above the EUV is central to the assessment of viability. To inform the judgement as to whether the uplift is set at the appropriate level, reference is made to the market value of the land both with and without the benefit of planning.

### Methodology

- 12.23 There is no statutory technical guidance on how to go about viability testing. This report follows the Harman Guidance and the 2019 NPPF and updated PPG. The promoters of the Garden Town sites have been consulted. The availability and cost of land are matters at the core of viability for any property development. The format of the typical valuation is:

$$\begin{array}{r} \textbf{Gross Development Value} \\ \text{(The combined value of the complete development)} \\ \\ \text{LESS} \\ \\ \textbf{Cost of creating the asset, including a profit margin} \\ \text{(Construction + fees + finance charges)} \\ \\ = \\ \\ \textbf{RESIDUAL VALUE} \end{array}$$

- 12.24 The Residual Value is the maximum a developer can offer for a site and still make a satisfactory profit margin.
- 12.25 It is well recognised in viability testing that the developer should be rewarded for taking the risks of development. The essential balance in viability testing is around the land value and whether or not land will come forward for development. The more policy requirements and developer contributions a planning authority asks for, the less a developer can afford to pay for the land. The purpose of this assessment is to quantify the costs of the Councils' various policies on development, the strategic infrastructure and mitigation costs from the IDP, and

then make a judgement as to whether or not land prices are squeezed to such an extent that, in the context of 2019 NPPF, the development is threatened to such an extent that they are not delivered.

- 12.26 It is important to note that this assessment is not trying to mirror any particular developer's business model – rather it is making a broad assessment of viability in the context of plan-making and the requirements of the 2019 NPPF (and updated PPG).

#### *Existing Available Evidence*

- 12.27 The 2019 NPPF, the updated PPG, the CIL Regulations and CIL Guidance are clear that the assessment of the potential impact of CIL should, wherever possible, be based on existing available evidence. Primarily, this is that which has been prepared for the Councils to inform their separate Plans:

- a. *EHDC Plan Viability, Affordable Housing and CIL Study*. PBA, 1<sup>st</sup> October 2015.
- b. *EFDC Stage 2: Update Assessment of the Viability of Affordable Housing, CIL and the Local Plan*. Dixon Searle, November 2017.
- c. *Local Plan Viability Assessment, Affordable Housing and CIL Review*. BNP Paribas, March 2018.

- 12.28 These three studies have been prepared by different consultancies, however all are broadly consistent in their approach and assumptions. These have been used as the starting point for this assessment.

- 12.29 The Councils also hold evidence of what is being collected from developers under the s106 regime. This is being collected outside this assessment but will be drawn on by the Councils when considering the results.

#### *Stakeholder Engagement*

- 12.30 The PPG and the Harman Guidance require stakeholder engagement – particularly with members of the development industry. A series of informal consultation events were held in the autumn of 2019 with the promoters of the Garden Town sites. A further round of consultation took place in mid-February 2019.

#### **Viability Process**

- 12.31 The assessment of viability as required under the 2019 NPPF and the CIL Regulations is not done using a set formula or calculation. It is a quantitative and qualitative process. The basic methodology involves preparing financial appraisals for the Garden Town sites and using these to assess whether development is viable. The sites were modelled based on discussions with Council officers, the existing available evidence supplied to us by the Councils, and on our own experience of development.

- 12.32 The sites include a range of uses, the main use being residential. The residential elements are as follows.

<b>Table 12.1 Summary of Main Harlow Garden Town Sites</b>	
	Units
East of Harlow (North)	750
East of Harlow (South)	2,600
Latton Priory	1,050
Water Lane Area (Sumners)	807
Water Lane Area (Katherines)	1,331
Gilston (Villages 1-6)	8,500
Gilston (Village 7)	1,500

Source: HC, EHDC, EFDC (November 2018)

- 12.33 The eventual planning applications may well be different to that set out in the Plan. In this assessment it is necessary to follow what is being planned for.
- 12.34 A bespoke viability testing model designed and developed by HDH Planning & Development Ltd specifically for area wide viability testing as required by the NPPF and CIL Regulations is used. The purpose of the viability model and testing is not to exactly mirror any particular business model used by those companies, organisations or people involved in property development.

### **Residential Market**

- 12.35 An assessment has been made of the housing market. Although development schemes do have similarities, every scheme is unique, even schemes on neighbouring sites. Market conditions will broadly reflect a combination of national economic circumstances, and local supply and demand factors, however, even within a town there will be particular localities, and ultimately site-specific factors, that generate different values and costs.
- 12.36 Harlow is one of the original New Towns and is about 25 miles north of central-London. As a Local Authority area, Harlow has tightly drawn boundaries, hence the cross-boundary co-operation behind the Harlow and Gilston Garden Town.
- 12.37 The situation is highly desirable, being just half an hour by train from Liverpool Street.
- 12.38 Of the adjacent and nearby Local Authority areas, Harlow has the second lowest (after Stevenage) average house prices. These lower prices may be due to the housing choice and current housing offer. Much of the town was developed since the 1950s and the range of house styles and types of development is typical of the second half of the 20<sup>th</sup> Century and is rather homogenous. To some extent the lower prices are a factor of the type, style and age of the houses in the town, rather than their location. Whilst this will have an influence on wider prices, there is no reason to suggest that should modern homes, with a greater appeal, be

developed in the town, that they should not achieve prices that are somewhat higher. This can be seen at Barratt Homes' new Gilden Park scheme to the northeast of the town. Of the adjacent and nearby Local Authority areas, Harlow has seen the largest increase in prices since the bottom of the market in 2019.

<b>Table 12.2 Change in Average House Prices</b>				
	April 2009	May 2018	Change	
<b>Harlow</b>	<b>£144,496</b>	<b>£280,567</b>	<b>£136,071</b>	<b>94%</b>
Basildon	£171,298	£305,099	£133,801	78%
Brentwood	£237,352	£413,792	£176,440	74%
Broxbourne	£203,897	£350,331	£146,434	72%
Chelmsford	£188,870	£335,754	£146,884	78%
East Herts	£228,593	£383,086	£154,493	68%
Epping Forest	£254,630	£464,020	£209,390	82%
St Albans	£277,074	£526,375	£249,301	90%
Stevenage	£162,181	£285,916	£123,735	76%
Uttlesford	£250,687	£383,134	£132,447	53%
Welwyn Hatfield	£217,392	£390,288	£172,896	80%

Source: Land Registry (July 2018)

12.39 It is not possible to attribute this change in values on a particular factor, but it is, at least in part, due to the regeneration of the town centre and the improved housing offer through new housing schemes.

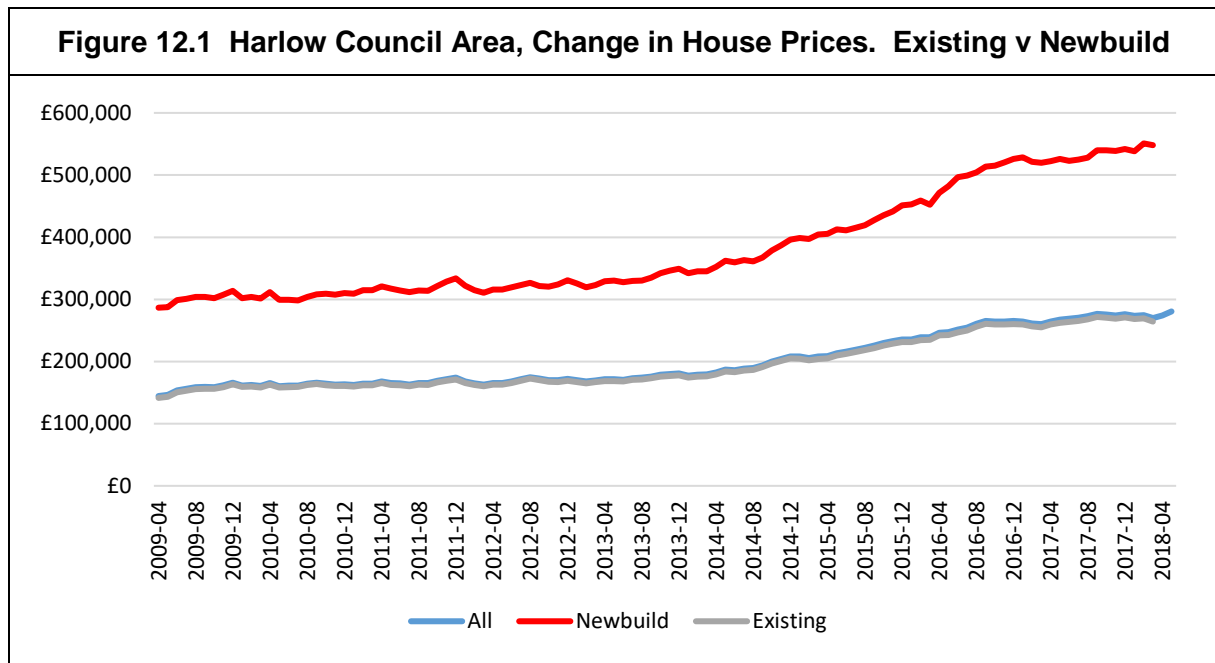
12.40 Overall the market is perceived to be strong and certainly desirable and aspirational to households seeking to move from London. Through conversations with local agents, the area is perceived to be an attractive place to develop, particularly with higher quality modern homes that are different to the existing stock.

#### *National Trends and Harlow's relationship with the wider area*

12.41 The housing market peaked late in 2007 and then fell considerably in the 2007/2008 recession during what became known as the 'Credit Crunch'. Average house prices across England and Wales have recovered to their pre-recession peak; however, this is strongly influenced by London. Prices in London are now well in excess of the 2007/2008 peak and, prices in Harlow have increased more than in England and Wales.

12.42 There is a degree of uncertainty in the housing market. This is, at least in part, due to the uncertainties around the referendum to leave the European Union. It is important to note that, at the time of this report, the housing market is still actively supported by the Government through products and initiatives such as Help-to-Buy.

- 12.43 A notable characteristic of the data is that the values of newbuild homes have increased substantially faster than that of existing homes:



- 12.44 The Land Registry shows that the average price paid for newbuild homes (at £547,945) is more than double than the average price paid for existing homes (at £264,474).
- 12.45 This report is being completed as the United Kingdom prepares to leave the European Union. It is not yet possible to predict the impact of leaving the EU, beyond the fact that the UK and the UK economy is in a period of uncertainty. Negotiations around the details of the exit are underway but not concluded. A range of views as to the impact on house prices have been expressed that cover nearly the whole spectrum of possibilities. There is clearly uncertainty in the market, and it is not for this assessment to try to predict how the market may change in the coming years, and whether or not there will be a further increase in house prices. Property agents Savills are predicting a 0% increase in the current year, 1% increase next year and a 15.3% increase over the next 5 years in the prime Outer Commute residential markets, with a 0.5% increase this year, 2.5% next year and 11.5% over the next 5 years in the mainstream South East residential markets. These predictions are somewhat less than were being predicted before the Brexit referendum.

#### *The Local Market*

- 12.46 A survey of asking prices across the Harlow town area was carried out in July 2018. Through using online tools such as [rightmove.co.uk](https://www.rightmove.co.uk) and [zoopla.co.uk](https://www.zoopla.co.uk) median asking prices were estimated. This assessment is concerned with the viability of newbuild residential property so the key input for the appraisals are the prices of units on new developments. Recent newbuild sales prices from the Land Registry have been reviewed and a survey of new homes for sale during July 2018 carried out.



- 12.47 The Land Registry publishes data of all homes sold. Each new house sold requires an Energy Performance Certificate (EPC). This is a public document that can be viewed on the EPC Register. The EPC contains the floor area (the Gross Internal Area – GIA). The price paid data from the Land Registry has been married with the homes' floor area from the EPC Register.
- 12.48 Across these settlements, from the start of 2016 the average price paid is about £3,900/m<sup>2</sup>, rising by 2018 to an average of over £4,350/m<sup>2</sup>. Whilst there is a price variation based on geography, it is modest, the principle driver of the differences is the situation rather than the location of a site. That is to say, the value will be more strongly influenced by the specific site characteristics, the immediate neighbours and environment, rather than in which particular ward or postcode sector the scheme is located.
- 12.49 At the time of this assessment there were about 60 new houses and flats being advertised for sale in and around Harlow (although on some of these, construction had yet to start). The analysis of these shows that asking prices for newbuild homes vary, very considerably, starting at £195,000 and going up to just under £700,000. The average is just over £400,000.
- 12.50 Following the initial consultation, the following values were derived.

<b>Table 12.3 Updated Residential Price Assumptions (£/m<sup>2</sup>)</b>		
<b>Typology</b>	<b>Houses</b>	<b>Flats</b>
East of Harlow	£3,800	£4,000
Latton Priory	£4,000	£3,700
Water Lane	£3,900	£3,900
Gilston Area	£4,285	£4,020

Source: HDH (December 2018)

#### *Affordable Housing*

- 12.51 The Councils have policies for the provision of affordable housing. It is assumed that such housing is constructed by the site developer and then sold to a Registered Provider (RP).
- 12.52 Social Rents are assumed to have a value of £1,285/m<sup>2</sup>. It is assumed that Affordable Rent will be no more than the LHA cap and to have a value of £1,915/m<sup>2</sup> is derived.
- 12.53 Intermediate products for sale include shared ownership and shared equity products. The market for these is very difficult at present and we have found little evidence of the availability of such products in the assessment area. A value of 65% of open market value is used for these units.

#### *Older People's Housing*

- 12.54 Housing for older people is generally a growing sector due to the demographic changes and the ageing population. The following values are used:

<b>Table 12.4 Worth of Retirement and Extracare</b>	
<b>All Areas</b>	<b>£/m<sup>2</sup></b>
Sheltered	5,500
Extracare	5,500

Source: HDH (July 2018)

### **Non-Residential Market**

12.55 There is no need to consider all types of development in all situations – and certainly no point in testing the types of scheme that are unlikely to come forward as part of the Garden Town proposals. In this assessment we have considered the larger format office and industrial uses. Whilst the proposals do include elements of retail, these are small scale so are not examined specifically.

- a. New office development is assumed to have a value of £2,800/m<sup>2</sup>.
- b. New industrial and distribution units are assumed to have a value of £1,650/m<sup>2</sup>.

### **Land Values**

12.56 An important element of the assessment is the value of the land. The worth of the land before consideration of any increase in value, from a use that may be permitted through a planning consent, is the Existing Use Value (EUV). This is the starting point for the assessment as this is one of the key variables in the financial development appraisals.

12.57 The ‘model’ approach is that for sites previously in agricultural use, then agricultural land represents the EUV and where the development is on brownfield land we have assumed an industrial value.

### *Residential Land*

12.58 Recent transactions based on planning consents over the last few years and price paid information from the Land Registry have been researched. These values are on a whole site (gross area) basis and range considerably. Having disregarded non-policy compliant schemes (as per PPG paragraph 10-015-20180724) the data can be summarised as follows.

<b>Table 12.5 Recent Sales of Development Land – Summary</b>		
<b>POLICY COMPLIANT SITES ONLY</b>		
	<b>£/ha</b>	<b>£/unit</b>
Minimum	£380,769	£29,118
Average	£1,729,712	£130,686
Median	£1,337,396	£106,859
Maximum	£4,545,455	£312,500

Source: Land Registry and the Councils

12.59 In this regard, we have a caveat and that is in relation to large sites. Large sites have their own characteristics and are often subject to significant infrastructure costs and amounts of open space which result in lower values.

12.60 It is necessary to make an assumption about the value of residential land. A value of £1,300,000/ha is taken as an average value for residential land. This is around the median value having discounted the outlier values as per paragraph 10-011-20180724 of the updated PPG. This figure would not apply to very large scale sites that are not represented in the above data.

#### *Industrial Land*

12.61 A value of £1,000,000/ha is assumed.

#### *Agricultural and Paddocks*

12.62 A figure of £20,000/ha was suggested for the consultation process, but this has been revised up to £22,500/ha which is assumed to apply.

#### *Benchmark Land Values*

12.63 The results from the appraisals are compared with the EUV. It does not automatically follow that, if the Residual Value produces a surplus over the EUV benchmark, the site is viable. In considering the BLV, regard has been had to the PPG. The starting point is the EUV. In this case the majority of the sites are in agricultural use so agricultural use is taken as the EUV. The exception is the case of Water Lane – West Katherines. Part of Water Lane – West Katherines is under glasshouses, so an industrial use value is attributed to the areas under glasshouses.

12.64 It is necessary to consider the value of policy compliant land transactions. The average value in the general area is about £1,300,000/ha. The transactions that inform this average are not representative of the sites that are under consideration in this assessment. The Garden Town sites range from 750 units to 8,500 units and from 72ha to about 1,000ha. The largest site for which price paid data was available was about 10ha, so over a completely different scale. No additional or alternative evidence was presented in this regard through the consultation with the site promoters.

12.65 The question for this assessment is what is a reasonable premium? In the Councils' published viability studies the following approaches were taken:

- a. *EHDC Plan Viability, Affordable Housing and CIL Study* (PBA, 1st October 2015) is the oldest of the three studies and a Threshold Land Value (being equivalent to BLV) of £2,250,000/ha is used for housing in the southern area of the district.
- b. *EFDC Stage 2: Update Assessment of the Viability of Affordable Housing, CIL and the Local Plan* (Dixon Searle, November 2017) takes various approaches, however for large greenfield sites, the assumption is £250,000/ha.

- c. Harlow's *Local Plan Viability Assessment, Affordable Housing and CIL Review* (BNP Paribas, March 2018) uses two thresholds of £250,000/ha and £370,000/ha, although the geographical area of this is not mapped.

12.66 The Epping Forest and Harlow studies clearly follow the EUV Plus approach, so the methodologies used are most closely aligned with the updated PPG. The East Hertfordshire assessment does not follow the EUV plus approach, so it is given less weight.

12.67 In this assessment, to consider the deliverability of the very large sites that make up the Harlow and Gilston Garden Town, it is necessary to make an assumption as to the Landowner's Premium. The following approach is taken.

- a. For brownfield and non-agricultural uses, EUV plus 20%. This only relates to the part of Water Lane – West Katherines that is under glasshouse use.
- b. On the agricultural land an assumption of EUV (£22,500/ha) plus £300,000/ha is used. This provides a very substantial uplift for a landowner selling a greenfield site with consent for development. In the event of the grant of planning consent they would receive over ten times the value compared with before consent was granted. This approach is the one suggested in the Harman Guidance (see Chapter 2 above) and by the Planning Advisory Service (PAS).

12.68 It is accepted that that this is a simplification of the market, however in a high-level assessment of this type that is based on modelled sites, simplifications and general assumptions need to be made.

### Development Costs

12.69 The appraisal costs are summarised as follows:

*Construction costs: baseline costs*

12.70 The cost assumptions are derived from the Building Cost Information Service (BCIS) data – using the figures re-based for Harlow.

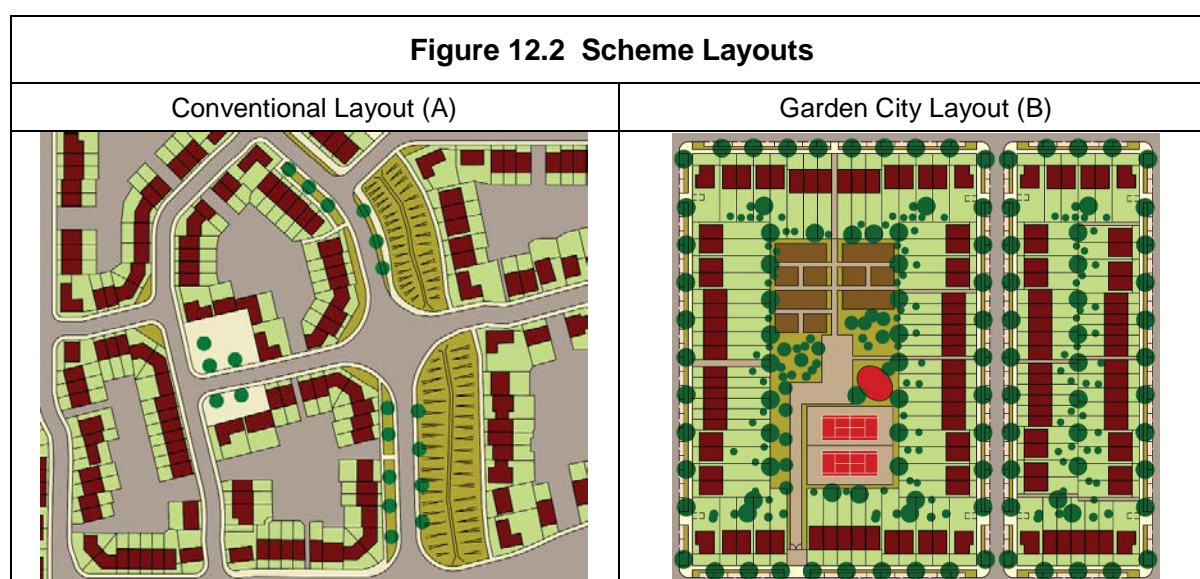
<b>Table 12.6 BCIS Costs- £/m<sup>2</sup> gross internal floor area</b>			
	Lower Quartile	Median	Average
Epping Forest	£1,107	£1,253	£1,292
Harlow	£1,097	£1,242	£1,280
East Hertfordshire	£1,097	£1,242	£1,280

Source: BCIS (July 2018)

12.71 It is assumed that all new non-residential development is built to the BREEAM Very Good standard.

## Site Costs

- 12.72 The difference between the Garden City and the conventional approach is in two main parts. The first being the total land requirement and the second being the layout. The construction costs are based on the BCIS costs. The BCIS costs include the costs of the building but not the costs of services and external works. For this assessment we have had regard to the work carried out by URS (now AECOM) to support the TCPA's *Nothing gained by overcrowding!* paper. In that paper, two 4ha schemes were modelled as per the layouts below (at 2012 prices) to ascertain the estimated site costs. It found that the site costs on the Garden City scheme, on a per unit basis, are about 65% of the costs on the conventional scheme.



Source: *Nothing gained by overcrowding!* TCPA 2012

- 12.73 Under a conventional scheme it is generally assumed that the site costs would be in the range of 15% to 20% of the construction (i.e. BCIS based) costs. In the pre-consultation notes site costs were assumed to be 13% of the BCIS based construction cost. Through the consultation process a range of comments were made. A 15% assumption is used.

### *Abnormal development costs and brownfield sites*

- 12.74 The PPG includes specific advice on the treatment of abnormal costs. When considering viability in the planning system, abnormal costs should be added to the cost side of the viability assessment, but also reflected (i.e. deducted from) in the BLV. This has the result of balancing the abnormal costs on both elements of the appraisal.
- 12.75 In some cases, where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures; flood prevention measures at waterside locations; remediation of any land contamination; remodelling of land levels; and so on. An additional allowance is made for abnormal costs associated with brownfield sites of 5% of the BCIS costs (the 19ha of glasshouses at Water Lane, West Katherine is treated as brownfield land).

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

#### *Fees*

- 12.77 Professional fees are assumed to amount to 8% of build costs and for non-residential development 8% is assumed. Additional allowance is made for the planning application fee, acquisition costs, sales (disposal) fees and fees in relation to finance.

#### *Contingencies*

- 12.78 For previously undeveloped and otherwise straightforward sites, a contingency of 2.5% has been allowed for, with a higher figure of 5% on more risky types of development, previously developed land and on central locations.
- 12.79 The strategic infrastructure and mitigation costs include appropriate (up to 20%) contingencies so additional contingency allowances are not made.

#### *S106 Contributions and the costs of infrastructure*

- 12.80 The Councils have recently reviewed the Infrastructure Delivery Plans specifically in relation to the Garden Town development. This work includes a disaggregation of the cost by site:

<b>Table 12.7 Refined Strategic Infrastructure and Mitigation Costs</b>			
	Units	Total	Cost/unit
East of Harlow (North)	750	£34,536,459	£46,049
East of Harlow (South)	2,600	£104,999,393	£40,384
Latton Priory	1,050	£48,191,121	£45,896
Water Lane Area (Sumners)	807	£38,247,063	£47,394
Water Lane Area (Katherines)	1,331	£63,004,339	£47,336
Gilston (Villages 1-6)	8,500	£445,525,028	£52,415
Gilston (Village 7)	1,500	£77,980,821	£51,987

Source: Arup, (March 2019)

- 12.81 The timings of these payments are also important and summarised below.

**Table 12.8 Phasing of Strategic Infrastructure and Mitigation Costs**

	2018 - 2023	2023 - 2028	2028 - 2033	2033 - 2038	2038 - 2043	2043 +
<b>East of Harlow (North)</b>						
Units	0	250	500	0	0	0
<b>S106 £</b>	£5,003,426	£18,713,880	£9,451,552	£295,166	£295,166	£777,269
s106 %	14.49%	54.19%	27.37%	0.85%	0.85%	2.25%
<b>East of Harlow (South)</b>						
Units	750	1,150	700	0	0	0
<b>S106 £</b>	£18,912,495	£51,556,734	£29,789,150	£1,023,241	£1,023,241	£2,694,533
s106 %	18.01%	49.10%	28.37%	0.97%	0.97%	2.57%
<b>Latton Priory</b>						
Units	50	500	500	0	0	0
<b>S106 £</b>	£6,830,689	£30,072,170	£9,373,621	£413,232	£413,232	£1,088,177
s106 %						
<b>Water Lane Area (Sumners)</b>						
Units	38	384	384	0	0	0
<b>S106 £</b>	£5,247,972	£25,729,792	£5,797,762	£317,598	£317,598	£836,342
s106 %	13.72%	67.27%	15.16%	0.83%	0.83%	2.19%
<b>Water Lane Area (Katherine's)</b>						
Units	63	634	634	0	0	0
<b>S106 £</b>	£8,655,577	£42,359,372	£9,562,356	£523,820	£523,820	£1,379,394
s106 %	13.74%	67.23%	15.18%	0.83%	0.83%	2.19%
<b>Gilston (Villages 1-6)</b>						
Units	217	833	1,000	1,000	1,500	3,950
<b>S106 £</b>	£125,285,303	£105,060,160	£103,991,799	£41,914,009	£27,171,859	£42,101,898
s106 %	28.12%	23.58%	23.34%	9.41%	6.10%	9.45%
<b>Gilston (Village 7)</b>						
Units	0	500	500	500	0	0
<b>S106 £</b>	£19,369,648	£20,851,622	£18,518,411	£7,564,222	£4,644,246	£7,032,671
s106 %	24.84%	26.74%	23.75%	9.70%	5.96%	9.02%

Source: Arup, (March 2019)

12.82 In the above some of the payments continue beyond the completion of the last unit. Where this is the case, in the modelling it is assumed any payments that are scheduled for after the completion of the last unit are made in the year of the last unit.

12.83 Whilst it is beyond the scope of this assessment to delve into the make up of the strategic infrastructure and mitigation costs, it is noted that some of the costs include doctors' surgeries. Such facilities have a value and are not necessarily a cost of development.

12.84 No allowance is made for any external funding. The Councils have a good track record in securing external funding for the Department of Transport (for M11 junction works) and others. There are current HIF bids being prepared at the time of this report.

12.85 None of the Councils have adopted CIL. No allowance is made for this tax.

#### *VAT*

12.86 It has been assumed throughout, that either VAT does not arise, or that it can be recovered in full.

#### *Interest rates*

12.87 The appraisals assume 6% pa for total debit balances. An arrangement fee of 1% of the peak borrowing requirement is also allowed for.

#### *Developers' return*

12.88 An allowance needs to be made for developers' profit / return and to reflect the risk of development. In this assessment the developers' return is assumed to be 20% of the value of market housing (being the top end of the range suggested by the PPG) and 6% of the value of affordable housing. This is in line with the updated PPG. In relation to non-residential development an assumption of 15% is used.

#### *Phasing and timetable*

12.89 The phasing is taken from the overall Garden Town Trajectory:

<b>Table 12.9 Harlow Garden Town Trajectory</b>							
	2018 - 2023	2023 - 2028	2028 - 2033	2033 - 2038	2038 - 2043	2043+	Total
East of Harlow (North)	0	250	500	0	0	0	<b>750</b>
	0.00%	33.33%	66.67%	0.00%	0.00%	0.00%	
East of Harlow (South)	750	1,150	700	0	0	0	<b>2,600</b>
	28.85%	44.23%	26.92%	0.00%	0.00%	0.00%	
Latton Priory	50	500	500	0	0	0	<b>1,050</b>
	4.76%	47.62%	47.62%	0.00%	0.00%	0.00%	
Water Lane Area (Sumners)	38	384	384	0	0	0	<b>806</b>
	4.71%	47.64%	47.64%	0.00%	0.00%	0.00%	<b>100.00%</b>
Water Lane Area (Katherines)	63	634	634	0	0	0	<b>1,331</b>
	4.73%	47.63%	47.63%	0.00%	0.00%	0.00%	
Gilston (Villages 1-6)	217	833	1,000	1,000	1,500	3,950	<b>8,500</b>
	2.55%	9.80%	11.76%	11.76%	17.65%	46.47%	
Gilston (Village 7)	0	500	500	500	0	0	<b>1,500</b>
	0.00%	33.33%	33.33%	33.33%	0.00%	0.00%	

Source: Arup (March 2019)



#### *Acquisition costs*

- 12.90 A simplistic approach is taken, it is assumed an allowance 1.5% for acquisition agents' and legal fees. Stamp duty is calculated at the prevailing rates.

#### *Disposal costs*

- 12.91 For the market and the affordable housing, sales and promotion and legal fees are assumed to amount to 3.5% of receipts. For disposals of affordable housing, these figures can be reduced significantly depending on the category, so in fact the marketing and disposal of the affordable element is probably less expensive than this.

### **Local Plan Policy Requirements**

- 12.92 Ultimately the purpose of this assessment is to demonstrate the deliverability of the sites that make up the Harlow and Gilston Garden Town. The three Councils are at different stages of the plan-making process.
- a. Harlow Council has prepared and agreed a submission Local Plan which was published for comments on legality and soundness between 10<sup>th</sup> May and 22<sup>nd</sup> June 2018. The Plan was submitted for public examination in October 2018 and the hearings have taken place and are now adjourned.
  - b. Epping Forest District Council's Local Plan Submission Version was published for comments on soundness and legal compliance for a six-week period from 18<sup>th</sup> December 2017 to 29<sup>th</sup> January 2018. The hearings are now underway.
  - c. East Herts District Plan was submitted in early 2017; it has been through the examination process and was adopted later on 23<sup>rd</sup> October 2018.
- 12.93 It is assumed the policy requirements apply in full.

### **Modelling**

- 12.94 In arriving at appropriate assumptions for residential development on each site, the built forms used in the appraisals are appropriate to the current development practices. In addition, the policy requirements, in terms of density, mix and open space are incorporated into the modelling.
- 12.95 Most of the allocations are very large relative to the numbers of units that are to be delivered from them with some generating densities of fewer than 15 units per ha. In part this is because the site is subject to constraints and whilst the 'red line' around the allocation takes in the whole site, only part is developable. In terms of assessing viability as required by the NPPF and PPG, in a high-level assessment of this type it is necessary to consider the policy requirements. The core analysis is therefore based on a net developable area of 60% - apart from the West Sumners site where the actual area is used.

**Table 12.10 Modelling Assumptions – Areas and Densities**

			Units	Modelled Area	Net Density units/ha	Net Area ha	m2/ net ha	Units/ Gross ha	Net Developable %
1	East of Harlow - North	EFDC	750	35.71	35.00	21.43	3,236	5.95	60.00%
2	East of Harlow - South	HBC	2,600	123.81	35.00	74.29	3,090	10.88	60.00%
3	Latton Priory	EFDC	1,050	50.00	35.00	30.00	3,235	13.78	60.00%
4	Water Lane - W Katherines	EFDC	1,331	63.38	35.00	38.03	3,236	18.40	60.00%
5	Water Lane - W Summers	EFDC	807	36.04	35.00	23.06	3,234	22.39	63.98%
6	Gilston - Villages 1-6	EHDC	8,500	404.76	35.00	242.86	3,207	8.50	60.00%
7	Gilston - Villages 7	EHDC	1,500	71.43	35.00	42.86	3,207	12.50	60.00%

Source: HDH (February 2019)

12.96 A private sheltered/retirement and an extracare scheme have been modelled, each on a 0.5ha site. For this assessment, we have assessed a number of development types including offices and industrial uses.

### Residential Appraisal Results

12.97 For each development site the Residual Value is calculated and compared to the EUV and BLV.



*Base Appraisals – full policy requirements*

- 12.98 The initial appraisals are based on the full policy on scenario, including full compliance with the affordable housing policies and the full provision of the strategic infrastructure and mitigation costs (as identified through the IDP process).
- 12.99 The results vary across the modelled sites, although this is largely due to the different assumptions around the values generated by the site and the level of the s106 developer contributions sought for strategic infrastructure and mitigation measures as well as the Councils' differing affordable housing requirements.
- 12.100 In this iteration of this assessment, the results of some of the appraisals (East of Harlow – North, Latton Priory, Water Lane – West Katherines and West Sumners, and Gilston – Villages 1-6) are notably less good than in the previous iteration (February 2019) of this assessment. The principal variable that has changed is the timing of the infrastructure payments, with further front loading now modelled:
- a. East of Harlow – North is modelled with 25% (£8,745,000) in year one and 11% (£3,750,000) in year two.
  - b. Latton Priory is modelled with 14% (£6,825,000) in year one and 12% (£6,000,000) in year two.
  - c. Water Lane – West Katherines is modelled with 14% (£8,660,000) in year one and 13% (£8,475,000) in year two.
  - d. Water Lane – West Sumners is modelled with 14% (£5,250,000) in year one and 13% (£5,150,000) in year two.
  - e. Gilston – Village 7 is modelled with 30% (£23,500,000) in year one.
- 12.101 In the above results, with the exception of Gilston – Villages 1-6, all the sites generate a positive Residual Value that is over £270,000/net ha or £160,000/gross ha.
- 12.102 The Residual Values on East of Harlow - South are notably higher than on East of Harlow – North. The house values are similar across the area, however the southern part of the site is subject to 30% affordable and developer contributions of about £40,000/unit, and the northern part is subject to the higher affordable housing requirement of 40% and developer contributions of about £46,000/unit.
- 12.103 The values across the two parts of the Water Lane site are similar.
- 12.104 The Gilston – Villages 1-6 requires particular mention. This is a very large site that has been assessed in this assessment as a single site. The PPG sets out how to go about a viability assessment and part of this is to assume the whole site is purchased, up front, in one lot. This works well for smaller sites, but this site is so large that this results in high cumulative interest payments over the delivery modelled. The reality is that such a large site would come forward in different phases, and this is recognised through the subdivision into villages. Each of these villages will have its own sense of place, but the requirements for infrastructure are shared

and assessed over the whole of the 6 villages. This is well illustrated by the comparing Gilston – Villages 1-6 to Gilston – Village 7. Both have similar policy requirements (both are in East Herts) and both have similar levels of developer contributions (about £52,500 per unit). In spite of these similarities, the results are very different.

12.105 In the further analysis set out below the Gilston – Villages 1-6 is modelled as 6 separate elements as well as a single element. In this modelling the net area is assessed at 35 units/ha and the gross area assumes a net developable area of 60%. For the purpose of this analysis is assumed that the s106 strategic infrastructure and mitigation costs spread over each Village equally and pro-rata to the rate of development.

12.106 When considering the results of the Gilston – Villages 1-6 it is necessary to appreciate that the site is in a single ownership and that the precise phasing and delivery of the separate communities is yet to be finalised.

**Table 12.11 Residential Development – Residual Value.**  
**FULL POLICY REQUIREMENTS – With Gilston Villages 1 - 6**

											Residual Value (£)		
											Gross ha	Net ha	Site
Site 1	East of Harlow - North	EFDC	Green		Agricultural	35.71	21.43	750			162,101	270,168	5,789,314
Site 2	East of Harlow - South	HBC	Green		Agricultural	123.81	74.29	2,600			518,717	864,529	64,222,164
Site 3	Latton Priory	EFDC	Green		Agricultural	50.00	30.00	1,050			340,575	567,626	17,028,766
Site 4	Water Lane - W Katherines	EFDC	Mixed		Ag / Glass	63.38	38.03	1,331			191,272	318,787	12,123,012
Site 5	Water Lane - W Sumners	EFDC	Green		Agricultural	36.04	23.06	807			260,349	406,945	9,382,985
Site 6	Gilston - Villages 1-6	EHDC	Green		Agricultural	404.76	242.86	8,500			-119,698	-199,497	-48,449,161
Site 7	Gilston - Villages 7	EHDC	Green		Agricultural	71.43	42.86	1,500			431,575	719,291	30,826,760
Site 8	Gilston 1	EHDC	Green		Agricultural	90.48	54.29	1,901			463,049	771,749	41,894,939
Site 9	Gilston 2	EHDC	Green		Agricultural	84.76	50.86	1,780			474,864	791,440	40,250,381
Site 10	Gilston 3	EHDC	Green		Agricultural	42.86	25.71	900			575,048	958,413	24,644,911
Site 11	Gilston 4	EHDC	Green		Agricultural	95.24	57.14	2,000			452,089	753,482	43,056,101
Site 12	Gilston 5	EHDC	Green		Agricultural	36.19	21.71	760			593,407	989,012	21,475,681
Site 13	Gilston 6	EHDC	Green		Agricultural	54.86	32.91	1,152			545,560	909,266	29,927,847

Source: HDH (March 2019)

12.107 When disaggregated the results of the Gilston – Villages 1-6 are very much better, being around £500,000/ha.

12.108 The Residual Value is not a good indication of viability by itself, simply being the maximum price that a developer may bid for a parcel of land, and still make an adequate return. In the



following table the Residual Value is compared with the BLV. The BLV being an amount over and above the EUV that is sufficient to provide the willing landowner with a competitive return and induce them to sell the land for development.

<b>Table 12.12 Residual Development v Benchmark Land Value</b>					
Per Gross Ha - Full Policy On					
			Alternative Use Value	Benchmark Land Value	Residual Value
Site 1	East of Harlow - North	EFDC	22,500	322,500	162,101
Site 2	East of Harlow - South	HBC	22,500	322,500	518,717
Site 3	Latton Priory	EFDC	22,500	322,500	340,575
Site 4	Water Lane - W Katherines	EFDC	315,530	585,553	191,272
Site 5	Water Lane - W Sumners	EFDC	22,500	322,500	260,349
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-119,698
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	431,575
Site 8	Gilston 1	EHDC	22,500	322,500	463,049
Site 9	Gilston 2	EHDC	22,500	322,500	474,864
Site 10	Gilston 3	EHDC	22,500	322,500	575,048
Site 11	Gilston 4	EHDC	22,500	322,500	452,089
Site 12	Gilston 5	EHDC	22,500	322,500	593,407
Site 13	Gilston 6	EHDC	22,500	322,500	545,560

Source: HDH (March 2019)

12.109 In the above analysis the EUV is taken to be an agricultural value except in the case of Water Lane – West Katherines. Part of Water Lane – West Katherines is under glasshouses (19ha / 30%) and the remainder (that will be subject to development) is in agricultural uses (44ha / 70%). As set out in Chapter 6 above, an industrial use value is attributed to the areas under glasshouses.

12.110 East of Harlow – North produces a Residual Value of about £160,000/ha. Whilst this is well above the EUV it is not above the BLV. As set above, this site is modelled with 25% (£8,745,000) of the infrastructure requirements in year one and 11% (£3,750,000) of the infrastructure requirements in year two. In contrast, East of Harlow – South which is modelled with 3.5% of the infrastructure requirements in each of the first two years is shown as viable, by a substantial margin, although this is in part due to the lower affordable housing target and the lower (as £/unit) infrastructure requirements.

12.111 Neither part of the Water Lane site generates a Residual Value that exceeds the BLV. On West Katherines the figure is below the EUV. The West Katherines part is now modelled with 14% (£8,660,000) of the infrastructure requirements in year one and 13% (£8,475,000) in year two. The West Sumners part is now modelled with 14% (£5,250,000) of the infrastructure requirements in year one and 13% (£5,150,000) in year two.

12.112 Considering Gilston – Villages 1-6 as individual sites, all the sites generate a Residual Value that is over £430,000/ha. This is above the EUV and BLV on the sites other than the Water Lane – West Katherines site which has a higher EUV due to the presence of the glasshouses.

12.113 As set out in Chapter 6 above, one of the site promoters feels that the BLV value remains too low and they suggested figure of £432,000/ha (based on £175,000/acre). Whilst this position is not accepted by the Councils, if this BLV was applied then the Latton Priory site Residual Value would be over the EUV but below the BLV.

12.114 This opportunity is taken to stress that the above results represent a worst-case scenario with the full infrastructure and mitigation requirements to deliver each site and the full infrastructure requirements that are required to deliver the wider Harlow and Gilston Garden Town being included within the appraisals. The modelling anticipates that the infrastructure is provided for when it is needed. No allowance is made for any external funding, for example through the Housing Infrastructure Fund (HIF) or from the Department of Transport (DoT). It is acknowledged that the site promoters are continuing to discuss the infrastructure requirements (both site-specific and Garden Town) and how they may be delivered.

12.115 There is no doubt that the delivery of any large site is challenging. Regardless of these results, it is recommended that the Councils continue to engage with the owners in line with the advice set out in the Harman Guidance (page 23):

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

12.116 In this context we particularly highlight paragraph 10-006 of the PPG:

*... It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan....*

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12.117 To assist the Councils a range of other appraisals have been run.

#### *Varied Infrastructure Delivery*

12.118 The above analysis is based on the delivery of the strategic infrastructure and mitigation measures as set out in Table 7.4 above. This is derived from an estimate of when the various items of infrastructure will be needed. On some of the sites there is a degree of front loading, that is to say that it is provided so that it is in place when it is needed. The timing of the delivery has an impact on viability as the early provision results in increased interest cost. There can be some flexibility as to when infrastructure is actually delivered, and whilst this may not be ideal, this may be an area where flexibility is acceptable. In the following analysis it is assumed

that that infrastructure is provided through the life of the project in line with the delivery of the dwellings.

<b>Table 12.13 Residual Development v Benchmark Land Value</b>						
Per Gross Ha – Effect of Varied Infrastructure Timing						
			EUV	BLV	Residual Value	
					As Table 7.4	Pro-Rata to units
Site 1	East of Harlow - North	EFDC	22,500	322,500	162,101	263,676
Site 2	East of Harlow - South	HBC	22,500	322,500	518,717	517,949
Site 3	Latton Priory	EFDC	22,500	322,500	340,575	413,014
Site 4	Water Lane - W Katherines	EFDC	315,530	585,553	191,272	268,589
Site 5	Water Lane - W Sumners	EFDC	22,500	322,500	260,349	345,356
Site 6	Gilston - Villages 1-6	EHDC	22,500	322,500	-119,698	151,013
Site 7	Gilston - Villages 7	EHDC	22,500	322,500	431,575	534,809
Site 8	Gilston 1	EHDC	22,500	322,500	463,049	463,049
Site 9	Gilston 2	EHDC	22,500	322,500	474,864	474,864
Site 10	Gilston 3	EHDC	22,500	322,500	575,048	575,048
Site 11	Gilston 4	EHDC	22,500	322,500	452,089	452,089
Site 12	Gilston 5	EHDC	22,500	322,500	593,407	593,407
Site 13	Gilston 6	EHDC	22,500	322,500	545,560	545,560

Source: HDH (March 2019)

12.119 The Residual Value is somewhat greater when the costs of strategic infrastructure and mitigation are spread over the delivery of the projects. This is particularly the case where Gilston – Villages 1-6 are considered as a single site.

#### *Varied Developer Contributions*

12.120 Generally, the strategic infrastructure and mitigation costs tested are at the top of the range normally found – and are about twice that anticipated in the Harman Guidance. The initial analysis assumes that the sites fund all their own infrastructure. It would be normal for such infrastructure to be funded from a range of sources, including from County Council funds, national funding schemes (in this regard the Councils are currently working together to submit a Housing Infrastructure Fund (HIF) bid), funds raised through New Homes Bonus, Community Infrastructure Levy (CIL) and the like.

12.121 Whilst the above is the correct starting point of the analysis, in order to give the Councils a greater understanding of how developer contributions impact on viability, a further set of appraisals have been run in the full policy on scenario, but with varied developer contributions up to £70,000/unit.



**Table 12.14 Residential Development – Residual Value.**

## FULL POLICY REQUIREMENTS – VARIED DEVELOPER CONTRIBUTIONS

[illegible]

Source: HDH (March 2019)

12.122 The above indicates that generally, the tipping point in terms of viability is somewhere around £40,000/unit. Very approximately, an increase of £2,500/unit in developer contributions results in a fall in the Residual Value of about £40,000/ha. This is a very significant swing illustrating that a small change in the s106 costs can have a significant impact on the results of the viability testing.

#### *Affordable Housing v Developer Contributions*

12.123 The essential balance for the plan-making process is the relationship between affordable housing and developer contributions. The base appraisals assume the locally appropriate (30% / 40%) affordable housing and the full strategic infrastructure and mitigation costs as informed by the most recent updated IDP. Further appraisals with affordable housing from 0% to 40% (on all sites – including those within Harlow) and developer contributions from £0 per unit to £70,000 per unit were run. All other policy requirements are assumed to apply.

12.124 As would be expected, as the level of affordable housing is reduced, the sites' ability to bear developer contributions improves. This will give the Councils confidence that the sites are deliverable.

12.125 In the previous analysis it was identified that an increase of £2,500/unit in developer contributions results in a fall in the Residual Value of about £40,000/ha. This analysis now shows that a 5% increase in the affordable housing results in a fall in the Residual Value of about £70,000/ha. It is clear that when changes are made to both the affordable housing requirements and s106 requirements, the changes in the Residual Value can be very significant.

12.126 The mix of affordable housing has an impact on viability. The results show that where the affordable housing requirement is 30%, a 10% increase in the amount of intermediate housing / 10% reduction in the amount of Affordable Rent results in, on average, an increase in the Residual Value of about £20,000/ha. Where the affordable housing requirement is 40%, a 10% increase in the amount of intermediate housing / 10% reduction in the amount of Affordable Rent results in, on average, an increase in the Residual Value of just under £30,000/ha.

12.127 Where viability is challenging, flexibility around the tenure mix of affordable housing sought may allow the overall affordable housing target to be achieved.

#### **Older People's Housing**

12.128 As well as mainstream housing, we have considered the sheltered and extracare sectors separately. All the Councils are seeking a mix of housing to be delivered from these large Harlow and Gilston Garden Town sites. The policies, as drafted, are not prescriptive in this regard to the amount of such speciality housing to be included in the sites. Appraisals are run with both the 30% and 40% affordable housing targets at a range of developer contributions.

- 12.129 The above analysis assumes that specialist older people's housing would be subject to similar levels of developer contributions (when calculated on a £/unit basis) as general housing. This is unlikely as such housing does not normally contribute to education.
- 12.130 This analysis shows that at around £40,000 per unit of developer contributions most schemes are likely to produce a Residual Value (on a £/ha basis) that is comparable to general housing. From this it can be concluded that the presence of specialist older people's housing is unlikely to impact seriously on viability and the delivery of the large Harlow and Gilston Garden Town sites.

### **Non-Residential Appraisals**

- 12.131 Financial appraisals were also run for the non-residential development types. When testing the non-residential development types, we have not run multiple sets of appraisals for different levels of policy requirement as the Councils do not seek to impose layers of policy requirements on these types of development. Further, when it comes to developer contributions it is assumed that these will be borne entirely by residential development.
- 12.132 All the Councils are seeking a mix of uses to be delivered from these large Harlow and Gilston Garden Town sites. The policies, as drafted, are not prescriptive as to the amount of other uses to be included in the sites.
- 12.133 Office development is not shown as viable, similarly, industrial development is shown as being unviable. The results are not reflective of the local market where development is coming forward. Where development is coming forward (and it is coming forward), it tends to be from existing businesses for operational reasons – rather than to make a return through property development.
- 12.134 It is notable that agents operating in the local market have reported that, over the last 18 or so months, that there has been a change in sentiment and an improvement in the market, and that this is expected to continue.
- 12.135 The analysis in this report is carried out in line with the Harman Guidance and in the context of the NPPF and PPG. It assumes that development takes place for its own sake and is a goal in its own right. It assumes that a developer buys land, develops it and then disposes of it, in a series of steps with the sole aim of making a profit from the development. As set out in Chapters 2 and 3 above, the Guidance does not reflect the broad range of business models under which developers and landowners operate. Some developers have owned land for many years and are building a broad income stream over multiple properties over the long term. Such developers are able to release land for development at less than the arms-length value at which it may be released to third parties and take a long-term view as to the direction of the market based on the prospects of an area and on wider economic factors. Much of the development coming forward in the area is 'user led' being brought forward by businesses that will use the eventual space for operational uses, rather than for investment purposes.

12.136 Some office and industrial/distribution development is challenging in the current market, but it is improving. We would urge caution in relation to setting policy requirements for employment uses that would unduly impact on viability.

### **Conclusions and findings**

12.137 There is no doubt that the delivery of any large-scale development is challenging. The analysis in this report shows that it will be necessary for the Councils to continue to work with promoters of the key sites that make up the Harlow and Gilston Garden Town.

12.138 The Councils can be confident that the sites are deliverable, however on some of the sites that it may be necessary to discuss the details around viability. As shown, flexibility around the timings of infrastructure payments and the mix of affordable housing can have a significant impact and improve viability notably. Such an approach would allow a fully policy-compliant scheme to be delivered, albeit with some compromise over timing.

12.139 If there is a reduction in the overall developer contributions (affordable housing and financial etc.) to below the full policy requirements, it is recommended that consideration is given to incorporating a review process into any final planning agreements. Such an approach is in line with paragraph 10-009-20180724 of the PPG and in line with the requirement '*to ensure policy compliance and optimal public benefits through economic cycles*'.



**HDH Planning and Development Ltd** is a specialist planning consultancy providing evidence to support planning authorities, land owners and developers. The firm is regulated by the RICS.

The main areas of expertise are:

- Community Infrastructure Levy (CIL)
- District wide and site specific Viability Analysis
- Local and Strategic Housing Market Assessments and Housing Needs Assessments

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