Refresh of DTZ 2009
Economic Viability Assessment
for Eden District Council

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Providing Valuation Services in partnership with Eden DC, Allerdale BC, Barrow BC, Cumbria CC, Hyndburn BC, Lake District NPA, South Lakeland DC and Wyre BC

Contents

Section 1: Context

1.1 In 2009 Eden District Council ('EDC') commissioned DTZ to undertake an Affordable Housing Economic Viability Assessment ('AHEVA') for Eden District.

1.2 EDC's Core Strategy was submitted to the Secretary of State for examination in April 2009. At the Pre-Hearing meeting held in July 2009, EDC agreed with the Inspector to provide an AHEVA in support of the Council's affordable housing policy (CS10) and reschedule the hearing session on this policy to December 2009. The aim of the AHEVA was to assess the viability of the baseline affordable housing policy as drafted within the Core Strategy, and develop an effective means of assessing an appropriate and justifiable affordable housing target in the District.

1.3 The completed DTZ study formed a key part of the Core Strategy examination evidence base and ultimately led to approval by the Core Strategy Inspector of EDCs affordable housing policy, which requires that in appropriate and relevant circumstances all new developments of sites within EDC's area of planning control will include a set level of affordable housing – details of which are found within the Council's 'Core Strategy Development Plan Document' [1]. The relevant policy extract is re-produced below:

[1] – *for further details see http://www.eden.gov.uk/planning-and-development/eden-local-development-framework/development-plan-documents/core-strategy-dpd/*

CS10 Affordable Housing

2. The range of circumstances in which affordable housing will be required to be provided in private sector developments is as follows:

a) The Council aspires to a target of 30% affordable share of each development above the minimum size threshold of 4 units, but recognises that this may be difficult in a recession. It also notes that the overarching target of at least 50 units per annum might partly be met through contributions lower than 30%. The Council may accordingly require a site based viability assessment to justify variance from that proportion.

1.4 As it is now four years since completion of the DTZ study EDC have requested that NPS Property Consultants Ltd ('NPS') – its valuation agent – provide a professional opinion on whether the assumptions used and conclusions reached in the DTZ study remain appropriate.

Section 2: Method

2.1 In order to provide a professional opinion on whether the assumptions used and conclusions reached in the DTZ study remain appropriate NPS:

(i) Itemised each of the assumptions and variables used in the DTZ 2009 study.

(ii) Undertook detailed market research, relevant analysis and testing to ascertain what the DTZ assumptions and variables would have been if their study had been undertaken in 2013, as opposed to 2009.

(iii) Agreed the updated 2013 assumptions and variables with relevant officers of EDC.

2.2 A summary of NPS's findings arising from the actions described above (2.1) and assumptions duly adopted are set out in **Appendix 1**. An accompanying commentary is provided in Section 3 of this report.

2.3 NPS went on to feed the updated 2013 assumptions and variables into a standard development appraisal Discounted Cash Flow (DCF) model – commonplace in the development industry and mirroring the approach used in the DTZ 2009 study – in order to ascertain the viability of a broad range of development scenarios representative of the type of sites that have and are likely to come forward for development within the District. The results of this exercise are set out in **Appendix 2**. An accompanying commentary on the implications of these findings is provided in Section 4 of this report.

Section 3: Commentary on Updated Assumptions

Valuation Date

3.1 It should be stated that NPS's updated analysis of DTZ's assumptions was prepared during August 2013. DTZ's original work was carried out in June 2009. Data on land values, sales prices and number of other variables are dynamic, always changing and any study can only provide a snapshot of viability. This should remain an important consideration when reviewing the work of DTZ and the subsequent updated assumptions put forward by NPS.

Study Areas

3.2 In order to be consistent with EDC's Strategic Housing Market Assessment (SHMA) DTZ tested sites within the three geographical areas identified in the SHMA, plus Penrith as a separate fourth area for testing purposes due to the anticipated proportion of development within and on the edge of Penrith in the coming years. The SHMA areas are shown on the map overleaf and were:

1. Eden Valley North – including Greystoke
2. Alston Moor
3. Eden Valley South – including Shap and Lowther
4. Penrith

DTZ Study Areas (Source: Strategic Housing Market Assessment – 2009)

3.3 In view of the task to provide a professional opinion on whether the assumptions used and conclusions reached in the DTZ study remain appropriate NPS's 2013 work uses these same four study areas in order to be consistent with DTZ's work.

Proposed Sites, Site Sizes and Site Densities

3.4 DTZ undertook site testing in all of the four study areas on a range of sites varying in both size and density. This categorisation was an attempt to ensure that their economic viability testing encompassed the systematic differences in key variables by location.

3.5 NPS take the view that the site sizes tested by DTZ were appropriate:

Penrith Sizes

Small	0.25ha
Medium	0.5 ha
Large	1 ha
Extra Large	2 ha
Urban Extension	5+ha

All Other Area Sizes

Small	0.25ha
Medium	0.5 ha
Large	1 ha
Extra Large	2+ ha

3.6 Development density affects the overall number of units provided on a given land area and is therefore a key factor in determining land value. The DTZ study identified the appropriate development densities to be applied to hypothetical sites in each of the four study areas. The figures used were based on typical densities of recent and anticipated developments in each type of location, with high, medium and low density figures identified so as to enable testing of the degree to which changes in density affect viability. The density assumptions were agreed by DTZ with EDC and Stakeholders. It was decided not to consider high density development outside of the Penrith market area as the circumstances when developments will occur above 35 dph are likely to be rare. NPS's view is that these assumptions remain appropriate. The DTZ density assumptions, expressed as dwellings per hectare (dph), were:

Penrith
high density 40 dph
medium density 35 dph
low density 30 dph

All Other Areas
medium density 35 dph
low density 30 dph

3.7 Within each study area DTZ made unit mix assumptions, as set out below, which in the view of NPS remain appropriate:

Eden District EVA Site Identification.

	Small			Medium			Large		
	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density
Penrith	PSHD	PSMD	PSLD	PMHD	PMMD	PMLD	PLHD	PLMD	PLLD
Alston	n/a	ASMD	ASLD	n/a	AMMD	AMLD	n/a	ALMD	ALLD
Eden Valley North	n/a	EVNSMD	EVNSLD	n/a	EVNMMD	EVNMLD	n/a	EVNLMD	EVNLLD
Eden Valley South	n/a	EVSSMD	EVSSLD	n/a	EVSMMD	EVSMLD	n/a	EVSLMD	EVSLLD

	Extra Large			Urban Extension		
	High Density	Medium Density	Low Density	High Density	Medium Density	Low Density
Penrith	PXLHD	PXLMD	PXLLD	n/a	PUEMD	PUELD
Alston	n/a	AXLMD	AXLLD	n/a	n/a	n/a
Eden Valley North	n/a	n/a	n/a	n/a	n/a	n/a
Eden Valley South	n/a	EVSXLMD	EVSXLLD	n/a	n/a	n/a

Total 36 sites

Eden District EVA Site Identification

Planning and Abnormal Costs

3.8 DTZ assumed that all sites have full planning permission, are clear of contamination and structures and are ready to develop. NPS endorses this approach for a strategic district-wide viability study of this type, which is not designed to test the viability of specific sites. Clearly some sites, particularly those of a brownfield nature, will have an element of abnormal cost. NPS has assumed brownfield land values as being adjusted upwards to absorb any abnormal expenditure into overall purchase expenditure' (see 3.18 - *below*) as supported by analysis of relevant transactional evidence. Such studies cannot seek to encompass all the potential differences in individual site circumstances that affect viability. What they can do is adopt realistic assumptions and variables that are likely to be broadly reflective of the majority of anticipated residential development schemes coming forward in the District within the foreseeable future.

Developer Return (Profit)

3.9 DTZ made the generic assumption in 2009 that developers on sites generating 10 dwellings or less will require a minimum net return of 16% on GDV (net of any finance cost or central overheads) and those developing sites generating more than 10 dwellings will require a net return of 18% on GDV. DTZ reported that Stakeholder Consultation endorsed their view that these were typical minimum rates of return being sought in the market.

3.10 It is important to acknowledge that the returns sought by different developers and how they secure this through the whole development process, can vary considerably. Developers will take into account a range of factors relating to the risk profile of the scheme, such as scheme size, time of delivery, location and other market factors, in determining what an acceptable rate of return is. Developer's Return is often the most potentially contentious aspect of any Viability Assessment.

3.11 From experience NPS is aware that widely differing profit margins will be expected by different Developers within the Cumbria area. Even in the current economic climate some smaller Developers may be willing to accept profit levels of between 8 and 15% of GDV (net of central overheads) in order to keep their workforce employed. Such smaller Developers will generally have low level or no funding requirements and the policies of lenders will have minimal relevance.

3.12 Other Developers have greater profit expectations of anything from 15% and 20% of GDV. Developers falling into this bracket will generally utilise bank funding facilities and therefore the policies of lenders and particularly the current economic climate will have a greater effect. In general terms ongoing slow sales rates across the UK continue to cause lenders some concern.

3.13 In relation to the current situation in Eden District the NPS view is that whilst some parties would no doubt make the case for an increase in assumed levels of profit, there is little robust evidence to support the necessity to significantly amend DTZ's 2009 assumptions in this regard. NPS's recent experience advocates an increase in the assumed level of return for sites of 10 dwellings or less from 16% to 17% of GDV. NPS is of the view that a return of 18% on GDV for sites generating more than 10 dwellings remains appropriate.

Land Value

3.14 DTZ took the cost of land to be a percentage of Gross Development Value (GDV) for each of the schemes they tested. NPS's view is that this is a reasonable approach, subject to land value assumptions being formed from a sufficient degree of local market evidence to enable them to be meaningful and reliable. There is however, it seems, some confusion about the land value approach adopted within DTZ's 2009 study – in respect of the distinction between the treatment of greenfield, rural, brownfield and urban sites.

3.15 Appendix 6 of DTZ's study sets out slides used in a presentation to stakeholder participants on 25 October 2009. General assumptions are set out which include 'Land Values - 5 - 10% GDV - This depends whether it will be greenfield or brownfield'.

3.16 3.32 of DTZ's report however states:

'Through market research and stakeholder consultation it was agreed that a value of 10% of GDV in rural areas and 20% of GDV in urban areas should be assumed as a value at which land will be brought forward and developed for residential as opposed to an alternative development use value or maintained as its existing agricultural use in areas outside of Penrith.

NPS is not aware of any reasoned justification of evidence for land in rural areas to command twice as much, as a percentage of GDV, than land in urban areas. There is a clear logic for a distinction in value terms between greenfield and brownfield sites, but not between urban and rural sites. It is clear that the majority of envisaged development in Penrith (and indeed within the Dsitrict as a whole) will take place immediately outside the current developed area of the town on land currently in agricultural use. NPS would expect the land value of such sites to equate to a similar percentage of GDV as greenfield sites in small towns and large villages within the District.

3.17 Appendix 1 of DTZ's study sets out 'Economic Viability Baseline Assumptions'. Within a table setting out proposed study assumptions the following comments are put forward for land value:

'These figures have been revised upwards following stakeholder consultation. Whilst stakeholders responded providing range of between 10% to 30% of GDV, the upper of these figures reflects the level of land value which would have typically been paid in the height of the market. For rural sites the impact of reality that schemes often provide less than 30 dph drives land value proportion of GDV higher than what would be calculated if schemes comprised 30 dph as a minimum. Likely brownfield sites will provide at least 30 dph hence higher land to GDV ratio is achieved. For both rural and brownfield consideration also given for deferred / staged land payments making the actual land price payable to the land owner less valuable than if payments were made up front.'

3.18 Ongoing analysis of local recent Cumbrian transactions by NPS supports the broad assumption that greenfield sites with an existing agricultural use - where the buyer has taken account of planning policy in the purchase price - will typically command a site value of 10% of GDV. Brownfield sites come with a wide range of previous uses. Previous uses will invariably be higher value than agricultural value. Urban brownfield sites with a flatted element will produce high development densities. The extent of remediation necessitated by previous uses will also be a factor in brownfield land values. When purchase outlay is adjusted upwards to incorporate abnormal expenditure a broad assumption of site value of 20% of GDV for brownfield sites is in NPS's view realistic. For the purposes of the current exercise NPS has assumed that all sites fall neatly into the designation of either 'greenfield' or 'brownfield'. In the 'real world' this is often not the case and sites will often contain land which falls into both categories - thus affecting the resultant purchase price.

Sales Rates

3.19 The DTZ study assumed sales rates of one per month for small sites and two per month for large sites. Stakeholder consultees were reported in 2009 to be broadly in agreement with this assumption. NPS is of the view that this remains a sensible assumption, based on ongoing emerging local evidence, which suggests that sales rates begin achieved have not changed significantly since 2009. Furthermore this assumption is backed up by representations made by the development industry in South Lakeland (an adjacent district to Eden) during the consultation process relating to the recent South Lakeland DC (SLDC) Viability Study led to agreed assumption of a maximum delivery rate per development site of 20 market units per year.

Build Costs

3.20 The DTZ 2009 study used build costs taken from Building Cost Information Service (BCIS) data – re-based using the local index for the Eden area. NPS has updated these figures to be correct at the valuation date for the subject ‘refresh’ exercise (August 2013). Median figures have been used for houses (‘Estate Housing Generally’ – £769 per m^2) and flats (£872 per m^2). BCIS data is based on representative cost returns from the construction industry and as such is widely accepted as being appropriate for use in high strategic level AHEVA exercises of this kind.

3.21 In light of an ongoing drive by the Government towards higher Building Regulations the NPS update has assumed a minimum standard equivalent in cost terms to Code for Sustainable Homes (CfSH) Level 4. This has been taken to result in an additional cost above BCIS median of 6%.

3.22 Whilst BCIS costs include all works to the sub-structure and super-structure, preliminaries and site overheads, all external works within the curtilage of each plot and within the communal areas of the site (such as the installation of utilities, highways infrastructure and site landscaping) are excluded. Many of these items will depend on individual site circumstances and can only properly be estimated following a detailed assessment of each site. Clearly this is not practical within such a high level study. It is however possible to generalise. External costs are typically lower for higher density than for lower density schemes as higher density schemes will have a smaller area of external works, and services can be used more efficiently. Large greenfield sites are more likely to require substantial expenditure on bringing mains services to the site. In the light of these considerations NPS's updated assumptions use a scale of allowances for the hypothetical residential sites, ranging from 10% of build costs for the smaller sites (0.25 hectares) to 15% for the larger greenfield schemes (of 1 hectare and above).

3.23 NPS have also assumed professional fees amount to 10% of build costs for each site. For greenfield sites a contingency of 2.5% has been allowed with a higher figure of 5% on brownfield sites.

3.24 The table below compares DTZ 2009 build cost assumptions (including professional fees and contingency) for houses with those adopted in 2013 by NPS:

<table>
<tr><td></td><td>DTZ 2009</td><td>NPS 2013</td></tr>
<tr><td>Houses (Penrith)</td><td>£839 per m^2 (£78 per ft^2)</td><td rowspan="2">£919 per m^2 (£85 per ft^2)*</td></tr>
<tr><td>Houses
(outside Penrith)</td><td>£893 per m^2 (£83 per ft^2)</td></tr>
</table>

** = Greenfield sites with 2.5% contingency*

3.25 It can be seen that the DTZ and NPS figures are similar - with the slight increase in build costs over the four year period since the DTZ study explaining the higher NPS figure. DTZ assumed higher build costs for the area outside Penrith. NPS has taken the view that the BCIS data has been re-based for the whole of the District, not just Penrith. Most of the key developers currently operating in the Eden are not based in Penrith. Some have their headquarters in Carlisle to the north, others in Kendal to the south, for example. To therefore assume that costs will be markedly lower for Penrith than the rest of the District does not in NPS's view stand up to scrutiny.

3.26 In 3.22 *(above)* it was noted that BCIS costs exclude all external works within the curtilage of each plot and within the communal areas of the site (i.e. site infrastructure and landscaping). There is no reference in the text of the DTZ study that gives the impression that external / infrastructure costs have been reflected in their assumed build costs. The allowance of an additional 10% (for smaller sites – 0.25 hectares) to reflect externals / infrastructure costs brings NPS build cost assumptions for houses to £996 per m2 (£92.6 per ft^2). An externals / infrastructure costs 15% allowance (for larger sites – of 1 hectare and above) brings NPS build cost assumptions for houses to £1,035 per m2 (£96.2 per ft^2).

Unit Values

3.27 As stated in 3.2 *(above)* DTZ tested sites within the three geographical areas identified in the SHMA, plus Penrith as a separate fourth area for testing purposes (Eden Valley North – including Greystoke; Alston Moor; Eden Valley South – including Shap and Lowther; Penrith). For a high level study of this type NPS takes the view that relatively large geographic values areas are appropriate.

3.28 The DTZ study states *(at 3.29)* that *'values, in terms of both sales values of new homes and land values vary across the study area'* and went on to adopt three "value bands" defined as high, medium and low value for each of these four geographic areas.

3.29 NPS's 2013 study update has simplified this approach by calculating an average value for each of the four geographic areas. These average values were calculated by sourcing sale prices (for the period since 1 January 2011), asking prices and floor areas of 237 new and recently built [2] homes within Eden District. These properties represent the vast majority of market activity in relation to new and recently built homes in the District within the past 2.5 years. **Appendix 3** sets out the information that was sourced and analysed as part of this task.

3.30 It should be noted that there has been no new development or re-sales of recently built houses in Alston in recent years, although the second-hand sales data for comparable properties within the different market areas and use of *Zoopla* house value index data suggest an assumption that values for new houses in the Alston Moor area would be approximately 10% below those of the rest of the District would be appropriate.

3.31 The findings from NPS's market analysis of new and recently built homes are summarised in **Appendix 4**, which also compares average sale price and floor area assumptions adopted by NPS in 2013 to those used in the 2009 DTZ study.

3.32 It is noted that DTZ had assumed that houses with the same number of bedrooms developed in Penrith would be significantly smaller than those developed outside Penrith. NPS's 2013 research and analysis has uncovered no evidence that this assumption is correct. DTZ had also assumed, primarily due their differing floor area assumptions, that houses with the same number of bedrooms developed in Penrith would be of a lower value than those developed in other parts of the District (other than Alston Moor). Again NPS's 2013 research and analysis uncovered no evidence to support this assumption.

3.33 It is suspected that DTZ's floor area research may have been skewed by the inclusion of rural 'period properties' in the areas outside Penrith, which naturally will have larger rooms and be of a greater floor area than properties with the same number of bedrooms in a nearby town (i.e. in this case within Penrith). It is for this reason, and the fact the aim of this exercise is to consider the viability of prospective development coming forward within the District over the next few years, that the NPS 2013 update is based only on the analysis of houses built in the period from the mid 1990’s to present.

[2] – *taken to feature houses built in the period from the mid 1990’s to present)*

Housing Mix

3.34 Following stakeholder consultation in 2009 DTZ produced proposed housing mix assumptions for each of the four 'study areas'. Assumptions for the three areas outside Penrith were the same. It was assumed that no five bedroomed houses would be developed within Penrith and that developments outside the town would see 10% of the total number of units being of five bedrooms.

3.35 Whilst there is no evidence to support significantly changing the DTZ proposed housing mix assumptions, NPS note that of 237 new and recently built homes within Eden District for which sale prices and asking prices have been analysed only one was of five bedrooms. Furthermore two recent significant developments within the District which NPS have looked do not feature any five bedroomed housing units. Although some developers may choose to include five bedroomed products in future proposals NPS takes the view that on current evidence it is unlikely that 10% of new houses built on sites outside Penrith will be of five bedrooms. This figure is more likely to be between 0% and 5%. Therefore for the purpose of the subject 'Refresh' Exercise NPS has assumed that the three 'study areas' outside Penrith follow DTZ's Revised Housing Mix Assumptions for Penrith (i.e. 25% of units to be 2 bed houses; 40% of units to be 3 bed houses; 35% of units to be 4 bed houses).

Affordable Assumptions (Intermediate and Affordable Rent Homes)

3.36 The completed DTZ study formed a key part of the Core Strategy examination evidence base and ultimately led to approval by the Core Strategy Inspector of EDCs affordable housing policy (CS10), which requires that in appropriate and relevant circumstances all new developments of sites within EDC's area of planning control will include *'a target of 30% affordable share of each development above the minimum size threshold of 4 units'.*

3.37 NPS has been asked to provide a professional opinion on whether the assumptions used and conclusions reached in the DTZ study remain appropriate. Consequently NPS has assumed 30% affordable housing for all hypothetical sites tested.

3.38 In their 2009 study DTZ assumed that affordable units constructed within housing developments would be sold to housing associations. This remains the usual course of action for such developments within Eden District and NPS has retained this assumption with a default position that affordable units would be split equally between intermediate and affordable rent units. In reality this default position would be subject to site specific variation based on local housing need evidence, but such detail is beyond the scope of a high level strategic study of this kind. Incidentally DTZ's base assumption had been that 70% of the affordable housing built will be for social renting and 30% will be intermediate tenure, which was reported to be reflective of the average findings of the 2006 Eden Housing Needs Survey. The DTZ study also looked at the impact on viability of changing this proportion to 50% social rented/50% intermediate and 30% social rented/70% intermediate. NPS's 2013 'refresh' commission does not extend to such sensitivity testing.

3.39 In 2009 DTZ assumed that intermediate housing units would be sold to housing associations at 50% of Market Value. EDC's Strategic Housing Team advise that in 2013 this figure should be uplifted to 60% of Market Value.

3.40 In 2009 DTZ assumed that social rent units would be sold to housing associations at 35% of Market Value. By 2013 social rent units have been replaced by affordable rent units (where rent is capped at 80% of market rent). EDC's Strategic Housing Team advise that affordable rent properties within the District are typically purchased by housing associations at between 45% and 50% of Market Value. NPS has opted for an assumption of 45% of Market Value.

Other Developer Contributions

3.41 Planning policy and statutory consultees will typically seek a range of ‘developer contributions’ from residential developments in addition to affordable housing, through Section 106 and Section 278 Agreements. Other such costs imposed by the public sector on developments, include highway works, provision of community facilities and education payments. These represent an additional development cost imposed on the development and, therefore, need to be taken into account in site-specific and strategic viability testing exercises.

3.42 EDC seeks payments from developers to mitigate the impact of each development, as appropriate, through improvements to the local infrastructure. In December 2012 Cumbria County Council published its Draft *Planning Obligation Policy* setting out in detail the contributions that developers may be asked to provide. NPS are aware that a number of aspects of the Cumbria County Council document (such as education and highways contribution) remain 'under discussion' between relevant stakeholders and are likely to vary in different parts of the District dependent on local circumstances. At this point in time it is difficult to sensibly come up with a 'one size fits all' per unit contribution allowance applicable across the District, or even a specific Housing Market Area within the District. Past trends in neighbouring South Lakeland District show that around £1,500 residential unit is an approximate average amount that has been collected. The future adoption and application of the Cumbria County Council *Planning Obligation Policy* and the 2014 proposed restriction to the ability of local authorities to pool s106 payments will undoubtedly lead to changes to typical levels of s106 contributions. Against this context NPS takes the view that it would be appropriate to continue with the DTZ approach of testing the viability effect of a range of s106 contributions (£1,000; £2,500; £5,000 and £7,500 per unit).

Local Occupancy Housing

3.43 When DTZ undertook its 2009 study EDC anticipated that Local Occupancy Units would form part of its approved Core Strategy. Consequently DTZ were asked to look at the impact of the Local Occupancy requirement on scheme delivery and its impact on affordable housing viability. Following consultation with stakeholders DTZ felt that a figure of 15% reduction in value (this incidentally mirrors the result of similar previous consultation and analysis carried out by NPS in South Lakleland) was appropriate. Local Occupancy however no longer forms a part of EDC's approved Core Strategy. NPS has therefore not tested this genre of housing.

Other Assumptions

3.44 The DTZ 2009 study incorporated a number of other assumptions which were held as constant for all aspects of the viability testing exercise. NPS has reviewed these and amended as necessary. Details are set out below:

	DTZ 2009 Assumed Rate	NPS 2013 Assumed Rate
Cost of finance	7.55% per annum	7.5% per annum
Disposal costs including marketing and sales expenses	3% of gross development value (sales receipts) (for private units only)	2.5% of gross development value (sales receipts) (for all units)
Site acquisition costs (including Stamp Duty)	5.75% of land value	Stamp Duty (0 to 5% of land value dependent upon transaction figure) + 1.5% of land value (for legal and acquisition costs)

Section 4: Commentary on 2013 Site Viability Results

4.1 NPS fed the updated 2013 assumptions and variables (as detailed in Section 2) into a standard development appraisal Discounted Cash Flow (DCF) model – commonplace in the development industry and mirroring the approach used in the DTZ 2009 study – in order to ascertain the viability of a range of hypothetical new build development scenarios representative of the type of sites that have and are likely to come forward for development within the District. The results of this exercise are set out in **Appendix 2**.

4.2 As set out in 3.18 *(above)* greenfield sites have been assumed to command a site value of 10% of GDV. Brownfield sites (with purchase outlay adjusted upwards to incorporate abnormal expenditure) have been taken to command a site value of 20% of GDV. Schemes that produce a positive residual balance when all variables (including site value / land price) have been deducted from sales receipts are deemed to be viable. Schemes that produce a negative balance are deemed to be unviable.

4.3 It can be seen that for the three 'study areas', other than Alston Moor, greenfield sites of low, medium and high densities withlow 'developer contribution' requirements (£1,000 and £2,500 per unit) are viable.

4.4 In the Alston Moor area even greenfield sites with the lowest 'developer contribution' requirements (£1,000 per unit) are marginally unviable.

4.5 In the three 'study areas', other than Alston Moor, greenfield sites with higher 'developer contribution' requirements (£5,000 and £7,500 per unit) are viable at both high and low densities for small (0.25 ha) sites. With 'developer contribution' requirements at these levels greenfield sites in these three areas at low, medium and high densities are unviable to varying degrees for large (1 ha) sites and urban extension (5 ha) sites.

4.6 The reason why greenfield sites with higher ‘developer contribution’ requirements (£5,000 and £7,500 per unit) lead to a viable scenario for small sites, but an unviable scenario for large and urban extension sites, can be explained by looking at the differences between assumptions adopted. Small sites (less than 10 units) have been taken to require a level of developer’s return (see 3.13 *above*) of 17% on GDV. Whereas larger sites (more than 10 units) have been taken to require a developer’s return of 18% on GDV to reflect increased risk on a greater amount of capital outlay. Smaller sites (0.25 ha) are also assumed to necessitate externals costs of 10% of build costs whereas larger sites (1 ha and above) are assumed to necessitate externals costs of 15% of build costs. It could be argued that build costs would be lower for larger sites, due to economies of scale savings, which would balance out the increased developers return and externals costs of larger sites. It is beyond NPS’s current brief to conduct analysis to explore the legitimacy of this argument further, however it is acknowledged that economies of scale savings are invariably seen to some degree on larger developments.

4.7 All greenfield site scenarios of all densities and ‘developer contribution’ levels for the Alston Moor area are unviable.

4.8 All brownfield site scenarios of all densities and ‘developer contribution’ levels for all study areas are unviable.

4.9 It is NPS’s view that the results of the DCF development appraisal site modelling exercise are a fair reflection of what has actually happened in reality within Eden District over the past four years since the Core Strategy examination. It is understood that developers have indicated willingness to develop a number of greenfield sites, with no abnormal constraints, with a full quota of 30% affordable housing. This mirrors the situation in South Lakeland, where NPS is also retained by the District Council in a planning viability advisory role. Again a number of greenfield sites, with no or minimal abnormal constraints, have been developed or it has been indicated that they can be developed with a full quota of 35% affordable housing (the adopted South Lakeland policy). In both Districts it is envisaged that such unconstrained greenfield, as opposed to brownfield, sites will continue to form the majority of Housing Land Supply in years to come.

4.10 Over the last four years in Eden District two significant developments have taken place on mixed brownfield / greenfield sites in Kirkby Stephen and Clifton. HMLR searches indicate that in both cases land purchase prices (adjusted for abnormal expenditure – remediation of a former quarry on one site and demolition of a hotel on the other) were in the range of 10% to 15% of GDV. Neither site was able to viably support a developer contribution of 30% affordable housing. Approved affordable housing contributions were 13% and 20% respectively. Again further supporting evidence is available from the adjoining South Lakeland area – where for example a brownfield site in Kendal (former public house and former car park) was redeveloped in 2011 with an approved provision of 22% affordable housing.

4.11 In conclusion this document provides a professional opinion on whether the assumptions used and conclusions reached in the DTZ 2009 study remain appropriate. NPS has gone on to test the viability of the updated 2013 assumptions and variables across a broad range of development scenarios representative of the type of sites likely to come forward for development within the District. It has been established that unconstrained greenfield sites in all areas other than Alston Moor can in theory potentially be developed viability – as long as developer contributions are kept below £5,000 per unit. As developer contributions are increased above this level the amount of affordable housing that can viability be provided is likely to decrease from the 30% policy target.

4.12 Brownfield sites will typically have some element of abnormal development costs. The NPS 2013 work shows that it is unlikely that such sites will be able to viably provide affordable housing at the 30% policy target. EDC Core Strategy policy CS10 does however provide flexibility for developers to provide evidence, in the form of a site based viability assessment, to justify deviation from the 30% policy target for such sites.

Section 5: Publication and other use

5.1 Neither the whole nor any part of this report or any reference hereto may be included in any published document, circular or statement, or published in any way without the Valuer's written approval of the form and context in which it may appear. In any event, such publication of, or reference to, this Report will not be permitted unless it contains a sufficient contemporaneous reference to the departures from the Practice Statements in *RICS Valuation Standards (8th Edition)*.

5.2 This report is provided for the stated purpose only and for the use of EDC. It is confidential to the parties concerned and their professional advisers. No responsibility whatsoever is accepted to any other person or organisation and no benefit is conferred or purported to be conferred on any other party.

Signed… Date… 15 October 2013

Matt Messenger MRICS (Registered Valuer)
Estates and Valuation Surveyor

For and on behalf of NPS Group