



Welwyn Hatfield Borough Council - Combined Policy Viability Study

Strategic sites testing

Prepared for
Welwyn Hatfield Borough Council

June 2016

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1 Introduction

This report outlines the results of the testing of five strategic sites in the Welwyn Hatfield Borough Council ('the Council's') area. This work follows BNP Paribas Real Estate's ('BNPPRE') Combined Policy Viability Study ('CPVS') report dated June 2014, which tested the ability of a range of development types throughout the Borough to viably meet the emerging planning policy requirements of the Welwyn Hatfield Emerging Core Strategy (November 2012) (ECS) and other pertinent local policies and guidance as well as national policies.

We note that since this time the Council have published a Local Plan Consultation Document (January 2015), which together with the strategic policies set out in the ECS, will form the basis of the Local Plan for Welwyn Hatfield ("The Local Plan").

This report has been prepared with a particular purpose to understand the cumulative impact of the Council's emerging requirements on the identified strategic sites including affordable housing, on-site Section 106 obligations and on-site infrastructure and sustainability measures. This is in line with the requirements of the National Planning Policy Framework ('NPPF') and the Local Housing Delivery Group guidance 'Viability Testing Emerging Local Plans: Advice for planning practitioners' (June 2012).

This report is structured as follows:

- Section 2 identifies the strategic sites that have been tested;
- Section 3 details the inputs to our appraisals;
- Section 4 outlines the results of our appraisals and considers the implications for the Council's local plan policies.
- Section 5 outlines sensitivity analysis of the strategic sites.
- Section 6 sets out our conclusions and recommendations

2 The strategic sites

The Council's emerging Local Plan identifies a series of place strategies for each of the Borough's towns and villages, together with the wider countryside in order to accommodate growth which promotes sustainable patterns of development. The Council has instructed BNP Paribas Real Estate to consider the viability of the strategic sites identified in Table 2.1.

Table 2.1: Strategic sites

Location/ Site ref.	Location	Development
HAT 1	North of Hatfield	<ul style="list-style-type: none"> • 1,650 Homes • 1 x Secondary School • 2 x Primary School • Retail • Employment • Community Buildings
HAT 2	West of Hatfield	<ul style="list-style-type: none"> • 1,100 Homes • 1 x Primary School • Retail • Energy Centre • Community Buildings
WGC 4	Panshanger Aerodrome	<ul style="list-style-type: none"> • 725 Homes • 1 x Primary School • Retail • Community Buildings
WGC 5	South East Welwyn Garden City	<ul style="list-style-type: none"> • 1,200 Homes • 1 x Primary School • Retail • Community Buildings
Hat 15	Symondshyde Village	<ul style="list-style-type: none"> • 1,130 Homes • 1 x Primary School • Retail • Community Buildings

3 Development appraisals

Our assumptions adopted for the development appraisals are set out in the following section.

3.1 Proposed strategic development

Table 3.1.1 sets out our assumptions on development density; number of residential units, commercial floorspace on mixed use schemes and the net site area.

Table 3.1.1 – Development assumptions

Site/location	Density – units per ha	Number of units	Commercial (Use Class)	Gross site area (ha)	Net site area (ha)
HAT 1	12.8	1,650	6,000 sq m (A1)	129	61
			1,000 sq m (D1)		
HAT 2	19.5	1,100	500 sq m (A1)	56.5	40
			500 sq m (D1)		
WGC 4	24	725	200 sq m (A1)	30.2	24
			300 sq m (D1)		
WGC 5	19.4	1,200	650 sq m (A1)	62	44.5
			500 sq m (D1)		
HAT 15	20	1,130	6,000 sq m (A1)	56.5	42
			1,000 sq m (D1)		

3.2 Unit mix

Following discussions with the Council we have been advised to adopt the unit mix as summarised in Table 3.2.1.

Table 3.2.1: Unit mix

Site/location	1 bed flat	2 bed flat	2 bed house	3 bed house	4 bed house
Unit Size	50 sqm	65 sqm	75 sqm	95 sqm	115 sqm
HAT 1	10%	20%	25%	30%	15%
HAT 2	10%	20%	25%	30%	15%
WGC 4	10%	20%	25%	30%	15%
WGC 5	10%	20%	25%	30%	15%
HAT 15	10%	20%	25%	30%	15%

3.3 Residential sales values

Sales values used in the appraisals are summarised in Table 3.3.1.

Table 3.3.1: Sales values used in the appraisals

Location	Sales values (average £s per square metre)
HAT1 – North of Hatfield	£3,640
HAT2 – West of Hatfield	£3,640
WGC4 – Panshanger Aerodrome	£3,640
WGC5 – South East Welwyn Garden City	£3,640
HAT15 – Symondshyde Village	£3,640

In June 2014 the CPVS adopted a sales value of £2,960 for the areas of which these five strategic sites are located. In order to update the values to present day we have had regard to the most recent Land Registry data.

The Land Registry data indicates that values in Hertfordshire have increased by 23% from June 2014 – March 2016. We therefore consider it appropriate to adopt the value as stated in the table above when assessing the five strategic sites.

3.4 Residential sales rate

The Council have provided us with a breakdown of the phasing that they expect to be assumed for the five strategic sites tested in this report. As the five sites all provide over 500 units in total we have assumed multiple sales outlets on all sites. The sales rates we have applied are as detailed in the table below.

Table 3.4.1: Sales rates used in the appraisals

Location	Sales rates (Units sold per calendar month)
HAT1 – North of Hatfield	10 – 15
HAT2 – West of Hatfield	8 – 12.5
WGC4 – Panshanger Aerodrome	9.5 – 9.75
WGC5 – South East Welwyn Garden City	6.5 – 9.75
HAT15 – Symondshyde Village	11.45 - 16

These sales rates are in line with the phasing dates provided to us by the Council. Furthermore, this sales rate is applied to the private housing only, with the developers assumed to contract with a Registered Provider for the disposal of the affordable housing prior to commencement of construction. The agreed acquisition price for the affordable housing is assumed to be received over the build period.

3.5 Commercial Revenue and Assumptions

The assumptions used in the appraisals to value the commercial accommodation are summarised in Table 3.5.1.

Table 3.5.1 – Commercial revenue and assumptions

Location	Accommodation	Rent (£ / sq m)	Yield	Void Period (Inc. Rent Free)	Build Cost (£ / sq m)
HAT1	A1 – A5 (Retail)	£118	6.5%	2 years	£1,258
HAT2	A1 – A5 (Retail)	£118	6.5%	2 years	£1,258
WGC4	A1 – A5 (Retail)	£118	6.5%	2 years	£1,258
WGC5	A1 – A5 (Retail)	£118	6.5%	2 years	£1,258
HAT15	A1 – A5 (Retail)	£118	6.5%	2 years	£1,258

Other cost assumptions adopted that relate to the commercial accommodation to be provided on the above sites are as follows:

- Purchase costs of 5.8%;
- Letting agent's fee of 10% of annual rent;
- Sales agent's fee of 1% of capital value;
- Legal fees of 0.5% of capital value;
- External works of 15% on build cost;
- 20% profit on value

3.6 Build costs and infrastructure

In June 2014 we sourced build costs for the residential schemes from the RICS Build Cost Information Services (BCIS), which is based on tenders for actual schemes.

The gross base build costs in June 2014 were £1,243 per square metre and £1,038 per square metre for flats and houses respectively. This assumption was based on the information provided in our CPVS. In addition to these base costs, we have included an allowance which equates to an additional 15% of the base cost for external works. We have assumed a gross to net ratio of 100% for the houses to be provided and an 85% gross to net ratio for the flats. In our experience it is likely that developers will be able to value engineer build costs to lower levels than assumed in this study on larger sites, such as these strategic sites.

The allowance included for external works accounts for any additional costs that may be incurred due to the physical nature of the sites plus any works required for landscaping, security enhancement and driveways/parking works within the site. This allowance may be more relevant for sites such as WGC5 where we understand the site topography may present certain development challenges.

As with the sales values update highlighted in section 3.3 we have considered industry accepted benchmarks to update the build costs for both houses and flats. The BCIS All-in Tender Price Index indicates that from Q3 2014 to Q2 2016 build costs have increased by 7.7%. Therefore for the purpose of our assessments we have adopted build costs of £1,540 per square metre and £1,285 per square metre for flats and houses respectively, inclusive of external works.

We have also incorporated site specific transport costs on the basis of the most up to date information available to the Council at the time of this report. Following discussions with the Council these total sums have been phased

throughout the total development period of the strategic sites. The costs included are detailed below:

Table 3.6.1 – Site Specific Infrastructure Contributions

Strategic Site	Total Cost	Phase Cost
HAT1 (North of Hatfield)	£15,000,000	Phase 1 - £9M
		Phase 2 - £3M
		Phase 3 - £3M
HAT2 (West of Hatfield)	£8,000,000	Phase 1 - £4M
		Phase 2 - £4M
WGC4 (Panshanger Aerodrome)	£5,000,000	Phase 1 - £3M
		Phase 2 - £2M
WGC5 (South-East Welwyn Garden City)	£8,000,000	Phase 1 - £3M
		Phase 2 - £4M
		Phase 3 - £1M
HAT 15 (Symondshyde Village)	£8,000,000	Phase 1 - £4M
		Phase 2 - £4M

3.7 Affordable Housing

The Council's emerging planning policy ECS Policy CS 7 'Type and Mix of Housing' identifies that: *'to reflect varying degrees of viability across the borough, affordable housing will be sought on the basis of:*

- 25% on-site delivery target in Hatfield,
- 30% in Welwyn Garden City; and
- 35% in the excluded villages.

These on-site targets apply to developments, including mixed use schemes, involving 15 or more new dwellings or sites of 0.38 ha or more in Hatfield and Welwyn Garden City and 5 or more new dwellings or sites of 0.13 ha or more in the excluded villages. Elsewhere, in sustainable locations through the redevelopment or re-use of Major Developed Sites in the Green Belt, where the provision of housing would be compatible with Green Belt policy, affordable housing will be sought on the basis of a 30% on-site delivery target.'

The supporting text to Policy CS 7 in para 9.4 highlights that the Council's priority is to ensure that they can deliver a mixed supply of affordable homes locally. In this regard, *'the tenure requirement for new affordable housing will be applied flexibly based on the most up to date information available on housing need and the affordability of rented and subsidised home ownership housing options, having regard to local incomes and local house prices.'* Further, para 9.5 sets out that, *'The starting point for tenure mix on suitable qualifying sites will be that 70% of all affordable homes will be for rented tenures (Social and Affordable) and 30% intermediate tenures, such as shared equity and shared ownership.'*

Given the above and the emerging SHMA results we have undertaken our viability testing of the strategic sites assuming a range of affordable housing provision from 35% to 25%. We have also had regard to the recent introduction of starter homes through The Housing and Planning Act 2016 that recently

received Royal Assent. Following discussions with the Council it has been agreed that despite the early stages of the Policy's introduction and that further information is expected through the publication of regulations starter homes will be incorporated into the strategic sites testing detailed in this report.

We have therefore adopted the following tenure splits to assess the strategic sites:

- 25% Affordable Housing = 20% Starter Homes, 4% Affordable Rented, 1% Shared Ownership
- 30% Affordable Housing = 20% Starter Homes, 8% Affordable Rented, 2% Shared Ownership
- 35% Affordable Housing = 20% Starter Homes, 12% Affordable Rented, 3% Shared Ownership

We have appraised the intermediate units as shared ownership, assuming that Registered Providers ('RPs') will sell 40% initial equity stakes and charge a rent of 2.75% on the retained equity. A 10% charge for management is deducted from the rental income and the net amount is capitalised using a yield of 6%.

3.8 Section 106 obligations

We have adopted Section 106 contributions as provided by the Council for each site. The Section 106 costs are assumed as set out in Table 3.8.1.

Table 3.8.1 – Section 106 Contributions

Strategic Site	Education Contribution	Community Facilities	Green Infrastructure
HAT1	£30,000,000	£3,000,000	£3,000,000
HAT2	£16,000,000	£2,000,000	£2,000,000
WGC4	£8,000,000	£1,500,000	£1,500,000
WGC5	£18,000,000	£3,000,000	£2,000,000
HAT15	£16,000,000	£2,000,000	£2,000,000

With regards to the contributions outlined above we have phased these payments throughout the total development period of each strategic site. The phasing of these payments has been provided to us by the Council.

3.9 Other assumptions

The other assumptions in our appraisals are as follows:

- Allowance for professional fees of 10% of build costs;
- Finance costs of 7% on negative balances; 0% on positive balances;
- Profit of 20% of private housing and starter homes Gross Development Value (GDV) and 6% on affordable rent and shared ownership affordable housing GDV;
- Acquisition costs: 4% stamp duty land tax, 1% agent's fee and 0.8% legal fees;
- Marketing and disposal costs: 3% of private housing GDV;
- Code for Sustainable Homes Level 4: 4% of base build costs (as adopted in the CPVS) ;

- SuDs: £750 per residential unit
- Lifetime Homes: £1,100 per unit (20% of total units only)

4 Appraisal results and analysis

4.1 Appraisal results and sensitivity testing

We have run appraisals of the 5 strategic sites identified to be tested which could be allocated for development within the Council's emerging Local Plan with the agreed level of affordable housing. We have then converted the residual land values for each entire site into a per hectare land value, in order to determine whether this might be sufficient for the site to be brought forward for development. The CPVS adopted the following benchmark land values:

Benchmark Land Value	Description	Value (£ per gross ha)
1	'Residential Land Value'	£1,382,000
2	Industrial	£741,000
3	Greenfield Site (CLG high end of range)	£370,000
4	Greenfield Site (CLG lower end of range)	£250,000

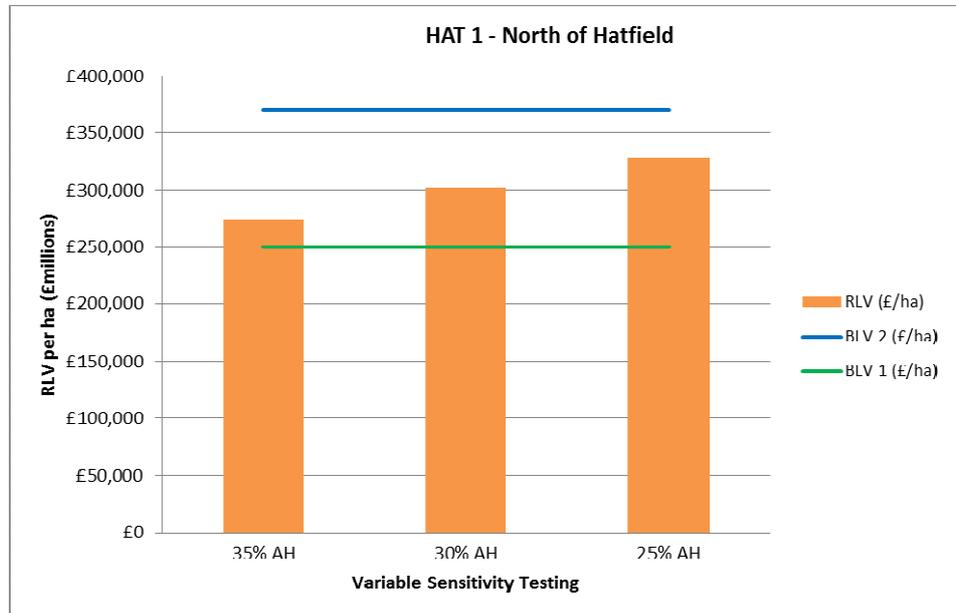
For this report we have tested the appraisal results against the most appropriate benchmark land value ("BLV") for each strategic site. The most appropriate benchmark land value for the all the strategic sites is benchmark 3 and 4. The appraisals and results are summarised below.

4.1.1 HAT 1 – North of Hatfield

Table 4.1.1: Appraisal results – HAT1 (North of Hatfield)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35%	£35.440	£0.275
30%	£39.050	£0.300
25%	£42.270	£0.330

Figure 4.1.1: Residual land values per hectare compared to benchmark land values (HAT1 – North of Hatfield)



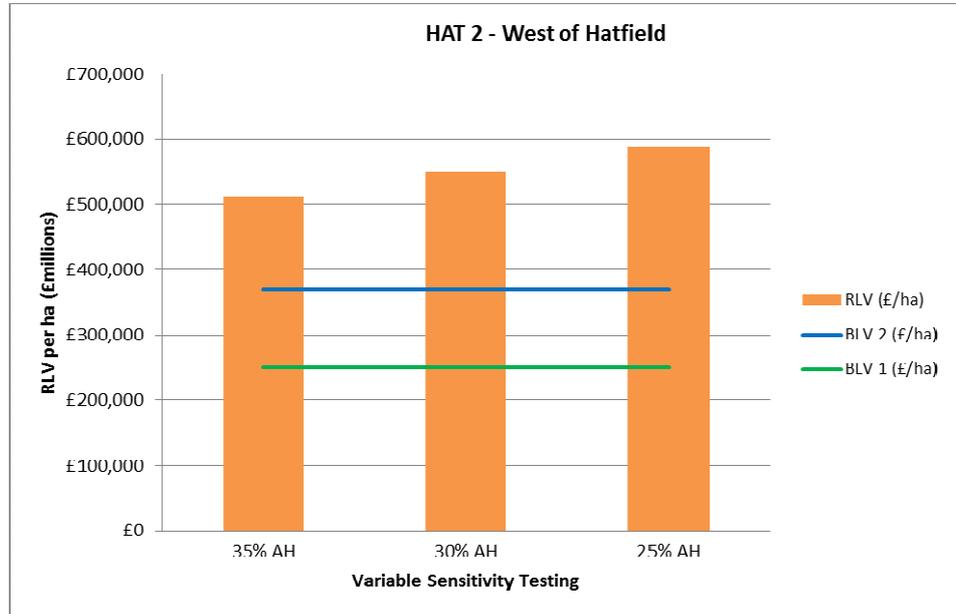
The results above demonstrate that the strategic site, HAT1 (North of Hatfield) is viable at all 3 levels of affordable housing tested when compared with the lower range of the Greenfield viability benchmark. However, when the upper range land value is adopted the site would be considered unviable at a 35% to a 25% provision of affordable housing.

4.1.2 HAT 2 – West of Hatfield

Table 4.1.2: Appraisal results – HAT2 (West of Hatfield)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35%	£28.900	£0.510
30%	£31.100	£0.550
25%	£33.190	£0.585

Figure 4.1.2: Residual land values per hectare compared to benchmark land values (HAT2 – West of Hatfield)



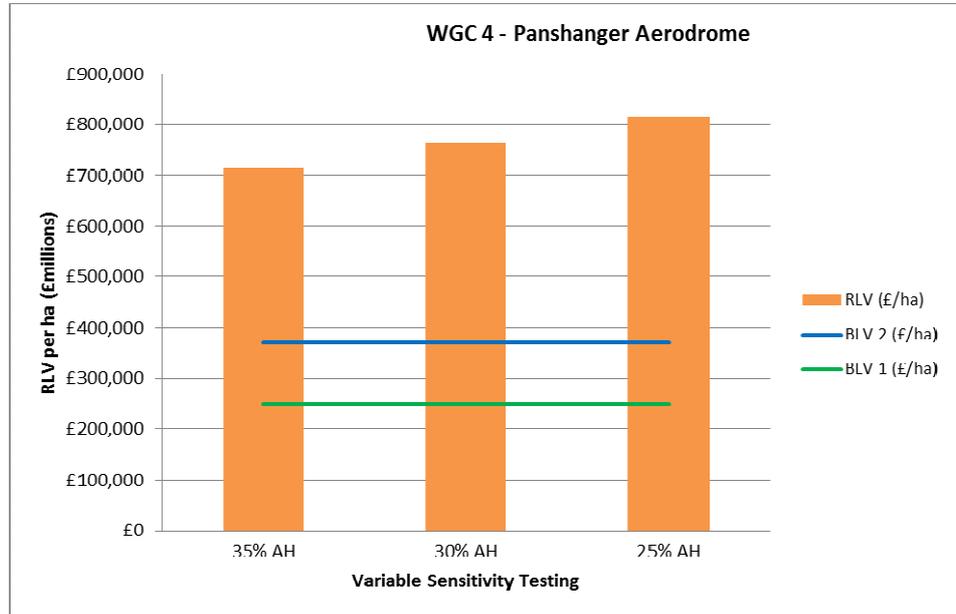
The strategic development of HAT2 (West of Hatfield) can viably deliver 35% Affordable Housing against both benchmark land values used to test the viability of the strategic sites.

4.1.3 WGC 4 – Panshanger Aerodrome

Table 4.1.3: Appraisal results – WGC4 (Panshanger Aerodrome)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35%	£21.565	£0.715
30%	£23.060	£0.765
25%	£24.600	£0.815

Figure 4.1.3: Residual land values per hectare compared to benchmark land values (WGC4 – Panshanger Aerodrome)



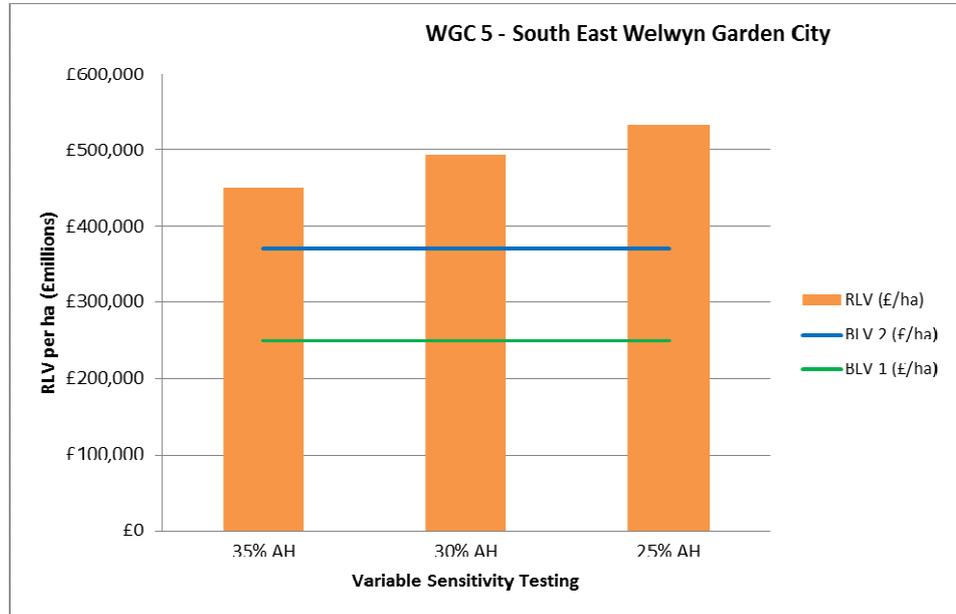
The appraisal scenarios of WGC4 (Panshanger Aerodrome) identify that on the proposed scheme is viable against both the benchmark land values of £0.25M per hectare and £0.37M per hectare when delivering 35% Affordable Housing.

4.1.4 WGC 5 – South East Welwyn Garden City

Table 4.1.4: Appraisal results – WGC 5 (South East Welwyn Garden City)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35%	£27.980	£0.450
30%	£30.555	£0.495
25%	£33.000	£0.530

Figure 4.1.4: Residual land values per hectare compared to benchmark land values (WGC5 – South East Welwyn Garden City)



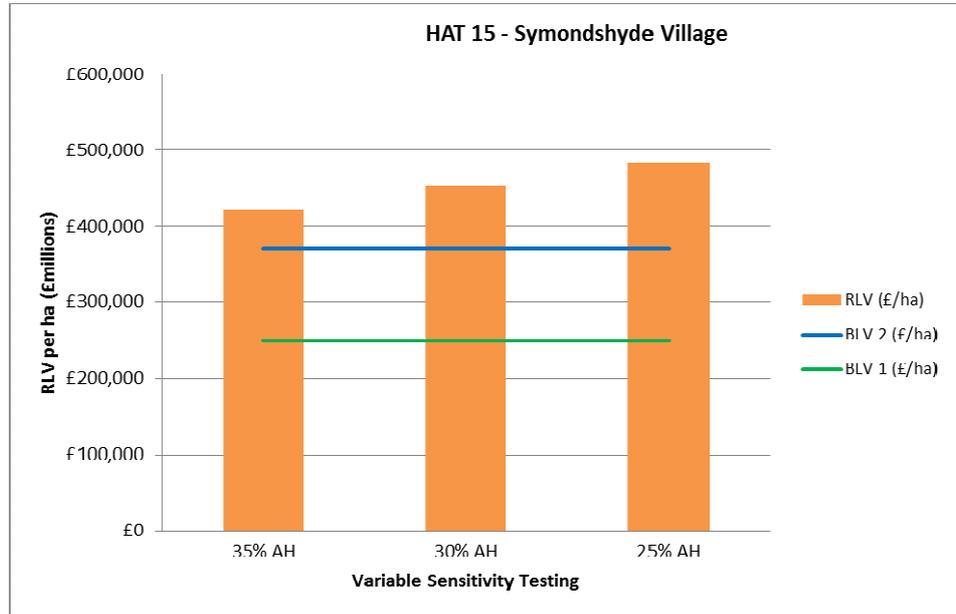
The table and figure above shows that strategic site WGC5 (South East Welwyn Garden City) is viable at 35% Affordable Housing and produces a minimum land value of £0.45M per hectare at a policy compliant position of 30%.

4.1.5 HAT 15 – Symondshyde Village

Table 4.1.5: Appraisal results – HAT 15 (Symondshyde Village)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35%	£26.135	£0.420
30%	£28.115	£0.455
25%	£29.955	£0.485

Figure 4.1.4: Residual land values per hectare compared to benchmark land values (HAT 15 – Symondshyde Village)



The table and figures above demonstrate that strategic site HAT15 (Symondshyde Village) is viable when compared against both benchmark land values of £0.25M per hectare and £0.37M per hectare at 35% Affordable Housing.

5 Conclusions and Recommendations

This testing has demonstrated that all five strategic sites can be considered to be viable and deliverable at a policy compliant position. However, we note that site HAT1 (North of Hatfield) is only viable at the lower Greenfield land value.

In light of the above we recommend that the Council applies their Affordable Housing Policy flexibly on these sites so that the sites can come forward and deliver the maximum reasonable quantum of affordable housing. In this regard it may be lower at HAT1 but higher for the remaining four sites given the surpluses generated could deliver a larger quantum of traditional affordable housing, i.e. affordable rent and shared ownership.