Newcastle City Council

Guidance Note for Developers on Viability Appraisal in Newcastle upon Tyne

This guidance has been produced to guide developers in the Council's assessment of viability considerations and to reflect the National Planning Policy Framework and updated national Planning Practice Guidance published in 2019 and the RICS Professional Statement on Financial Viability in Planning: Conduct and Reporting May 2019.

1. Background to the Process

1.1 Guidance on cases where planning applications are likely to require developers and landowners to enter into a planning obligation under section 106 of the Town and Country Planning Act 1990 (s106 agreement) in Newcastle upon Tyne are set out in the Council's Planning Obligations Supplementary Planning Document.

1.2 Applications where s106 agreements will be required should be discussed as part of any pre-application discussions with the Council's Development Management Team. This should include the scope and form of the s106 agreement and any financial contributions required to comply with local plan polices. A draft Heads of Terms of the s106 agreement, drafted by the applicant, is an application validation requirement, as set out in the Tyneside Validation Checklist 2019. Where proposals for development accords with all relevant policies, no viability assessment will be required. However, where on viability grounds it is not possible to comply with the associated local plan polices then a financial viability appraisal will be required. This is likely to include the need to provide affordable housing, on or off-site transport or education infrastructure, open space, sport and recreation enhancements and other forms of infrastructure required to support the development.

1.3 You are strongly advised that any viability issues that would prevent the applicant complying with relevant development plan polices are discussed at an early stage in design development with the Council's Development Management Team. Where a viability appraisal is submitted to support the s106 agreement Head of Terms submission, then this should preferably be received at the validation stage of the application.

1.4 The viability appraisal will be required to evidence the reasons for the non-compliance with local plan policies based on the Council's relevant standardised appraisal inputs where:

i. further information on constraints and/or infrastructure costs is required; and/or

ii. exceptional site-specific circumstances and costs can be demonstrated; and/or

iii. Economic changes in circumstance from the adoption of the local plan.

1.5 Any submitted viability assessment will need to accord with the Council's financial appraisal where relevant which was undertaken to inform the Council's local plan documents, including the testing of notional schemes and allocation sites. Where a site is allocated in an up to date local plan for the use proposed, indexed viability assumptions from the published assumptions should be used. (See Appendix 1).

1.6 The Newcastle City Council Local Plan comprises strategic Joint Core Strategy and Urban Core Plan (2015) and the Development and Allocations Plan which replaces the UDP and Area Action Plans.

1.7 Newcastle City Council and Gateshead Council Viability and Deliverability Report (Local Plans) and Report Appendices is the latest viability evidence and supports the Newcastle City Council Pre-Submission Development and Allocations Plan (Sept. 2018).

1.8 Applicants/agents are advised to familiarise themselves on the approach to deriving the benchmark land value (BLV) and policy cost assumptions (including emerging policy costs) in the above report where relevant in advance of finalising a transaction.

1.9 Developers' viability appraisals will be published on the Newcastle City Council public access website as a supporting document to any planning application.

2. Assessment of Appraisals

2.1 Applicants will be expected to meet the costs, as specified by the Council, associated with reviewing financial viability appraisals. This will be secured in advance of any work being undertaken on the appraisal by means of a written agreement by the applicant to cover the Council's reasonable costs associated with the work. This will need to be agreed with the relevant Development Management application case officer.

2.2 Financial viability appraisals will be reviewed by a Chartered Surveyor in the Council's Property section, initially to establish the scope of the viability assessment and identify queries, errors, missing information and matters of clarification. If required, Property will liaise with the applicant's agent/viability assessor to resolve queries, request corrected or missing information and matters of clarification to be addressed. In some cases, the viability review may be undertaken by an external agent. It will take a minimum of six weeks to undertake the appraisal from the date of receipt of **all** relevant supporting information and agreement of the applicant to fund the appraisal. After this time, Property will then provide a summary and recommendation on their findings in a report for the Development Management case officer.

2.3 The appraisal should adopt a residual land value methodology. The benchmark land value should be calculated in accordance with the guidance set out in the Planning Practice Guidance for viability, adopting the assumed standardised inputs and informed by market evidence, wherever possible. The appraisal can be sensitivity tested to understand whether the project can sustain the relevant planning obligations, ensuring that any price paid or offered for a site is not a justification for failing to accord with relevant policies in the local plan.

2.4 Financial viability appraisals should be accompanied by a fully testable and editable electronic/software model (ideally Argus Developer), which explicitly shows the calculations and assumptions used in the planning application. Financial viability appraisal inputs should be clear, justified, in-line with standardised inputs (where appropriate) and reference to site specific market normal costings and supported with appropriate comparable costings or other supporting evidence. Financial viability reports should include an executive summary which outlines the key conclusions being drawn from the appraisal.

2.5 Once the review has been undertaken, Property will inform the applicant's agent/ viability assessor of the conclusions of the review. The results of the viability appraisal will be shared with the Development Management case officer. Where appropriate, revisions to the Heads of Terms of the s106 agreement may then need to be discussed and agreed with the applicant before the application can be reported to the Council's Planning Committee.

3. Planning Committee

3.1 A summary of the findings of the viability assessment will be contained within the public Planning Committee papers, circulated prior to the meeting. Any confidential report will be circulated to the members of the Committee separately, if appropriate.

3.2 If required, a Chartered Surveyor will attend the Planning Committee to clarify general queries raised in the public session and to provide more detailed advice.

4. Key Appraisal Inputs

4.1 The residual appraisal should include the standardised inputs (where relevant), identified in Appendix 1 of this document, and all cost and value details relevant to the proposed scheme, as follows:-

- Floor areas including the relevant GIA, NIA and NSA;
- GDV including existing income, anticipated income and/or sales, yields, incentives, sales rates (for residential), anticipated grant funding, anticipated value of affordable units and any deductions for Stamp Duty Land Tax and agents/legal fees;
- Costs including anticipated build cost with a full QS cost plan showing how costs have been estimated, site preparation costs, vacant possession costs, planning, construction costs (including timescales and phasing), abnormal costs, third party costs (such as right to light), finance rates, professional fees (as a %) of construction costs, acquisition cost, other costs;
- Two-way sensitivity analysis- based firstly on the level of return generated from the proposed project with site acquisition cost as an input and secondly, to establish the residual value (Site or Market Value) by setting a predetermined level of return (this should be in line with industry norms).

4.2 The national Planning Practice Guidance provides guidance on process and content of viability assessments. The RICS Financial Viability in Planning; Conduct and Reporting (May 2019) provides guidance on the conduct and reporting of viability assessments. See Appendix 2 of this guidance note for a copy of the RICS legislative and policy context flow chart.

https://www.gov.uk/guidance/viability

https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/building-surveying/financial-viability-in-planning-conduct-and-reporting-rics.pdf

4.3 Where land is purchased unconditionally the onus is on the purchaser to make sufficient allowance for planning policy requirements and any other uncertainties with regard to specific site conditions, title, any abnormal development costs, prevailing costs and revenues that may affect the viability of a policy compliant scheme as a benchmark land value will be used in the appraisal (also see average assumed BLV, CIL and s106 agreement costs in Appendix 1). Allowance should be made to take account of emerging national/ local policy requirements within the elapse of time before an application is submitted and implemented, so as to comply with PPG and RICS advice that the price paid for land is not allowable evidence for the assessment of BLV and cannot be used to justify failing to accord with relevant policies in the plan. See para 2.7 of the RICS Financial Viability in Planning (May 2019) for advice on deriving the BLV.

4.4 Applicants/agents should be aware of the accessible and adaptable standards and spacing standards in dwellings in the Development and Allocations Plan (Policies DM6, DM7 and DM8) (see background to the process above). This will be particularly relevant in flatted schemes.

4.5 In the case of flatted schemes, the developer will need to be clear of the development model proposed - such as, purpose-built student accommodation, build-to-rent, affordable housing or open market sale, as this will dictate the gross development value (total sales/capitalised rent) and the developer contributions/ policy requirements.

5. Overage

5.1 In many cases a review of a developments viability at a later date will be incorporated into a s106 Agreement by way of a Deed of Overage, whereby actual costs and/or actual sales values and resulting profit level will be re-calculated at a future calculation date. This will allow viability assumptions to be retested to determine whether the approved scheme has become more viable from the date that planning permission was granted. The timing of the viability review (Calculation Date) will depend on the nature and scale of the approved scheme. The timing of any review will be determined by the size of a development and its phasing. For example, this may be at a reserved matters stage in connection with an outline application or upon completion of a phase or completion of a development.

PLEASE ALLOW STRATEGIC PROPERTY 6 WEEKS FROM RECEIPT OF ALL REQUISITE INFORMATION RELATING TO THE VIABILITY ASSESSMENT TO PRODUCE A VIABILITY REPORT TO ACCOMPANY A PLANNING APPLICATION. ALSO NOTE THAT REPORTS NEED TO BE CIRCULATED 10 DAYS PRIOR TO THE RELEVANT PLANNING COMMITTEE DATE.

Therefore a minimum of 8 WEEKS is required to undertake the appraisal and to allow the application to be considered by the Council’s Planning Committee.

Frequently asked questions relating to development appraisals are set out in Appendix 3 of this document.

Kath Lawless
Assistant Director Planning
January 2020

Appendix 1

Newcastle City Council
Viability Assumptions Summary – Residential Development

<table>
<tr><td>Site Types</td><td>Type 1 - 1 dwellings
Type 2 - 15 dwellings
Type 3 - 50 dwellings
Type 4 - 100 dwellings
Type 5 - 100 apartments
Type 6 - 40 sheltered housing / assisted living flats</td></tr>
<tr><td>Gross areas (Ha)</td><td>Type 1 - 0.03 to 0.04Ha
Type 2 - 0.30 to 0.33Ha
Type 3 - 1.33 to 1.39Ha
Type 4 - 3.33 to 4.00Ha
Type 5 - 0.25Ha
Type 6 - 0.57Ha</td></tr>
<tr><td>Net areas (Ha)</td><td>Type 1 - 0.03 to 0.04Ha (100% of gross area)
Type 2 - 0.30 to 0.33Ha (100% of gross area)
Type 3 - 1.20 to 1.25Ha (90% of gross area)
Type 4 - 2.50 to 3.00Ha (75% of gross area)
Type 5 - 0.25Ha (100% of gross area)
Type 6 - 0.40Ha (70% of gross area)</td></tr>
<tr><td>Units per net (Ha)</td><td>Type 2 - 45 to 50Ha
Type 3 - 40 to 42Ha
Type 4 - 33 to 40Ha
Type 5 - 400Ha
Type 6 - 100Ha</td></tr>
<tr><td>Dwelling size (based on NDSS averages)</td><td>
<table>
<tr><th>Number of beds</th><th>Low (sq m)</th><th>High (sq m)</th><th>NDSS Average (sq m)</th></tr>
<tr><td>1b flat</td><td>39</td><td>50</td><td>44.50</td></tr>
<tr><td>2b flat</td><td>61</td><td>70</td><td>65.50</td></tr>
<tr><td>3b flat</td><td>74</td><td>95</td><td>84.50</td></tr>
<tr><td>2</td><td>70</td><td>79</td><td>74.50</td></tr>
<tr><td>3</td><td>84</td><td>108</td><td>96.00</td></tr>
<tr><td>4</td><td>97</td><td>130</td><td>113.50</td></tr>
</table>
</td></tr>
<tr><td>Density</td><td>
<table>
<tr><th>Value area</th><th>15 units</th><th>50 units</th><th>100 units</th><th>100 flats</th><th>Assisted Living</th></tr>
<tr><td>High</td><td>4,173</td><td>3,508</td><td>2,880</td><td>22,280</td><td>4,560</td></tr>
<tr><td>High mid</td><td>4,055</td><td>3,456</td><td>2,880</td><td>-</td><td>4,560</td></tr>
<tr><td>Mid</td><td>3,806</td><td>3,328</td><td>2,813</td><td>-</td><td>4,560</td></tr>
<tr><td>Low mid</td><td>3,920</td><td>3,332</td><td>3,270</td><td>-</td><td>4,560</td></tr>
<tr><td>Low</td><td>3,920</td><td>3,299</td><td>3,270</td><td>-</td><td>4,560</td></tr>
</table>
The above shows density on a sq m per net Ha basis. See Residential Values Map below:</td></tr>
</table>

Revenue – market value	High area - £3,050 psm High mid area - £2,550 psm Mid area - £2,150 psm Low-mid area - £1,875 psm Low area - £1,700 psm 25% increase for sheltered housing / assisted living flats
Revenue – affordable housing	Affordable Rent - 55% of MV Shared ownership / intermediate - 70% of MV Discounted market sale - 80% of MV
Plot construction costs	High area - BCIS median Low, low mid & mid areas - BCIS lower quartile (£1,097 psm) High mid area - in between lower quartile & median For single dwellings, flatted schemes and assisted living the BCIS median has been applied
Externals, Contingency & professional fees	Total 25% of plot construction costs
Abnormals allowance	£150,000 per net Ha Increased to £300,000 per net Ha for all city centre locations
Marketing and sales fees	15 or more dwellings - 3% of revenue Sub 15 dwellings - 1.5% of revenue
Legal fees	Market value dwellings - £600 per unit Affordable housings - £300 per unit
Finance	Debit rate - actual or 6.5% cap Credit rate - 3%
Build rates	Type 1 - 9 months Type 2 - 12 months Type 3 - 24 months Type 4 - 36 months Type 5 - 15 months Type 6 - 12 months
Sales rates per annum	Type 1 - 1 p.a. Type 2 - 15 p.a. Type 3 - 25 p.a. Type 4 - 33 p.a. Type 5 - Sold as a single entity to a single investor Type 6 - 25 p.a.
Developer Profit	20% on revenue for market value dwellings and 6% on revenue for affordable dwellings Decreased to 10% on revenue for Built to Rent (i.e. Type 5) Zero profit for single dwellings (i.e. Type 1) on the basis of an owner occupier developer

<table>
<tr><td>Benchmark Land Value</td><td>
<table>
<tr><th>Value area</th><th>Urban / sub urban (£ / Ha)</th><th>Non-urban (£ / Ha)</th></tr>
<tr><td>High</td><td>£2,100,000</td><td>£530,000</td></tr>
<tr><td>High mid</td><td>£1,600,000</td><td>£480,000</td></tr>
<tr><td>Mid</td><td>£900,000</td><td>£420,000</td></tr>
<tr><td>Low mid</td><td>£500,000</td><td>£380,000</td></tr>
<tr><td>Low</td><td>£200,000</td><td>£360,000</td></tr>
</table>
</td></tr>
<tr><td>Section 106 contributions (average allowance)</td><td>Urban / suburban - £2,000 per dwelling in Newcastle
Non-urban - £4,000 per dwelling in Newcastle</td></tr>
<tr><td>CIL</td><td>Urban / suburban - High area £30 per sq m
Non-urban - High mid area £60 per sq m</td></tr>
<tr><td>M4 (2) standard</td><td>Average £2,000 per dwelling</td></tr>
<tr><td>M4 (3) (a) adaptable standard</td><td>Average £12,500 per dwelling</td></tr>
<tr><td>M4 (3) (b) accessible standard</td><td>Average £25,000 per dwelling</td></tr>
</table>

Viability Assumptions Summary – Non-residential Development

Non-residential site typologies

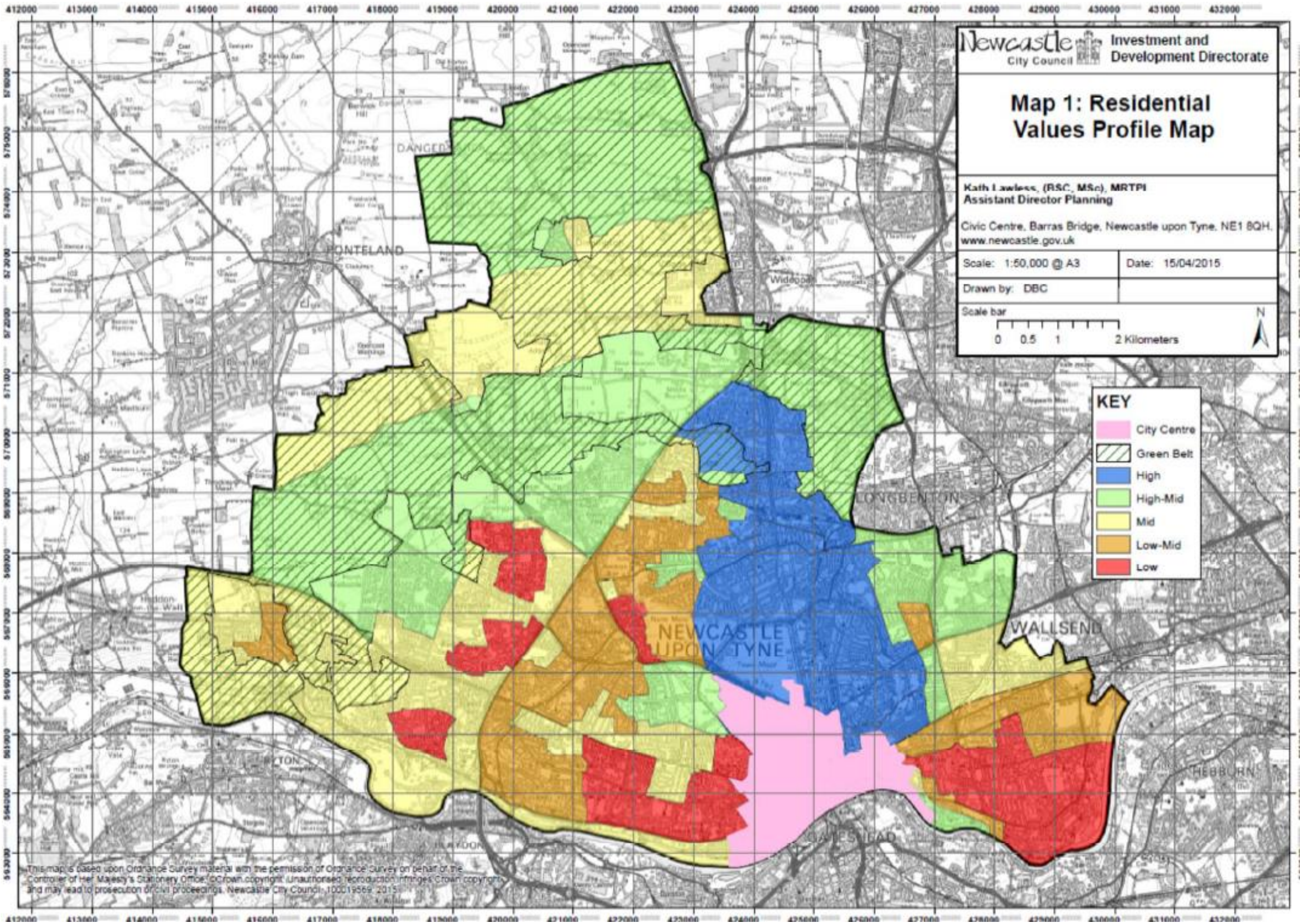
COMMERCIAL SCHEME TYPES					
DEFINITION AND USE CLASS	EXAMPLE SCHEME TYPE	GIA (SQ.M)	SITE COVERAGE (PLOT RATIO)	SITE SIZE (HA)	ROOMS IF APP.
B1 (A) OFFICES - NEIGHBOURHOOD/OUT OF TOWN	OFFICES	2,000	80%	0.25	
B1 (A) OFFICES - NEWCASTL CENTRAL AREA	OFFICES	4,000	400%	0.10	
OUT OF CENTRE HOTEL	HOTEL NOT CENTRAL AREA	3,600	72%	0.50	120
CITY CENTRE HOTEL	HOTEL - NOT NEWCASTLE CENTRAL AREA	8,000	200%	0.40	180
A1,A2,A3,A4,A5 - SMALL RETAIL	CONVENIENCE STORE	279	90%	0.03	
SUPERMARKET- DISCOUNT	SUPERMARKET	1,510	20%	0.76	
SUPERMARKET	SUPERMARKET	5,000	25%	2.00	
A1- RETAIL WAREHOUSE	RETAIL WAREHOUSE	1,000	42%	0.30	
SHARED ACCOMMODATION	STUDENT	16,266	400%	0.41	530
, LIGHT INDUSTRIAL B2, B8	INDUSTRIAL WAREHOUSE	3,000	40%	0.75	

Non-residential revenue allowances	Retail warehouse - £110 to £160psm, yield 6.5% A1-A5 units - £60 to £645psm, yields 7.5% to 8.5% Supermarket - £150 to £215psm, yield 6% Discount supermarket - £150psm, yield 6% Offices - £86 to 226psm, yield 7% to 8.5% Industrial - £40 to £70psm, yields 7.5% to 10% Hotels - £65k to £145k capital per room Student - £2,856 to £5,916 per room p.a., yields 7.5% to 8.5%
Rent free	Retail warehouse - 9 months A1-A5 units - 12 months Supermarket - 15 months Discount supermarket - 12 months Offices - 10 months Industrial - 10 months
Build costs	BCIS median Except Hotels in Newcastle Central Area, where the BCIS upper quartile has been applied

Externals	Retail warehouse - 15% of BCIS A1-A5 units - 10% of BCIS Supermarket - 15% of BCIS Discount supermarket - 5% of BCIS Offices - 15% of BCIS Industrial - 10% of BCIS Hotels - 5% of BCIS Student - 5% of BCIS
Professional fees	10% of BCIS
Contingency	5% of BCIS
Abnormals Allowance	£150,000 per net Ha £300,000 per net Ha in Newcastle Central Area
Sales fee	1% of revenue
Letting fee	10% of Yr 1 income
Legals	Sales - 0.25% on revenue Lettings - 5% of Yr 1 income
Developer profit	15% on cost
Benchmark Land Value	<u>Urban/suburban</u> High £2.1million per net Ha Medium £900,000 per net Ha Low £200,000 per net Ha <u>Non-urban</u> High £530,000 per net Ha Medium £420,000 per net Ha Low £360,000 per net Ha See Commercial Values Map below

Source: Newcastle City Council and Gateshead Council Viability and Deliverability Report (Local Plans) supporting Newcastle City Council Pre-Submission Development and Allocations Plan (September 2018).

Residential and Commercial Values Profiles for Newcastle upon Tyne are shown on Maps 1 and 2 below.


Newcastle City Council
Investment and Development Directorate
Map 1: Residential Values Profile Map
Kath Lawless, (BSC, MSc), MRTPI
Assistant Director Planning
Civic Centre, Barras Bridge, Newcastle upon Tyne, NE1 8QH.
www.newcastle.gov.uk
Scale: 1:50,000 @ A3
Date: 15/04/2015
Drawn by: DBC
Scale bar
0 0.5 1 2 Kilometers
N
KEY
City Centre
Green Belt
High
High-Mid
Mid
Low-Mid
Low
NEWCASTLE UPON TYNE
PONTELAND
LONGBENTON
WALLSEND
HEBBURN
GATESHEAD
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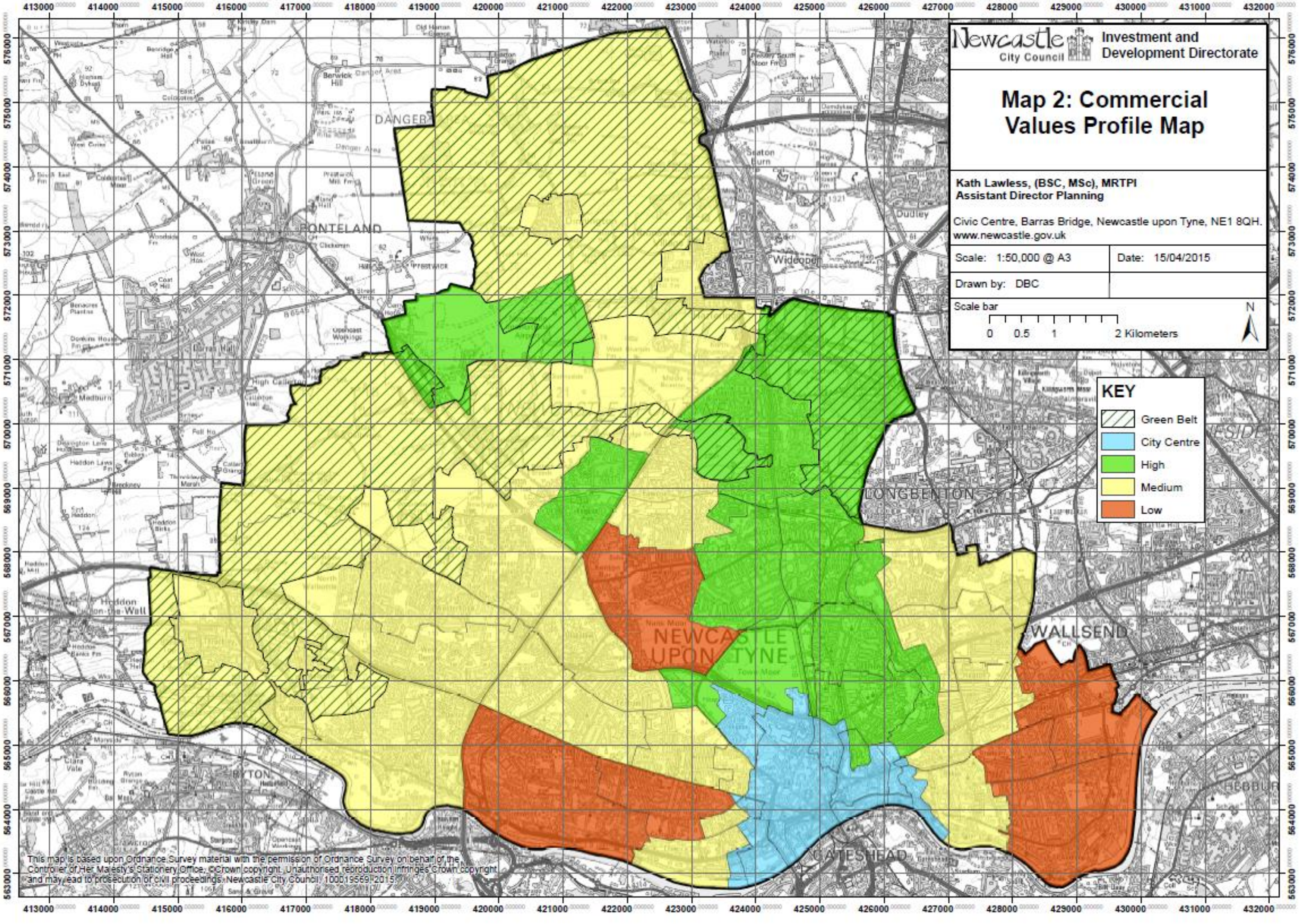
Newcastle City Council
Investment and Development Directorate
Map 2: Commercial Values Profile Map
Kath Lawless, (BSC, MSc), MRTPI
Assistant Director Planning
Civic Centre, Barras Bridge, Newcastle upon Tyne, NE1 8QH.
www.newcastle.gov.uk
Scale: 1:50,000 @ A3
Date: 15/04/2015
Drawn by: DBC
Scale bar
0 0.5 1 2 Kilometers
N
KEY
Green Belt
City Centre
High
Medium
Low
PONTELAND
NEWCASTLE UPON TYNE
WALLSEND
LONGBENTON
GATESHEAD
RYTON
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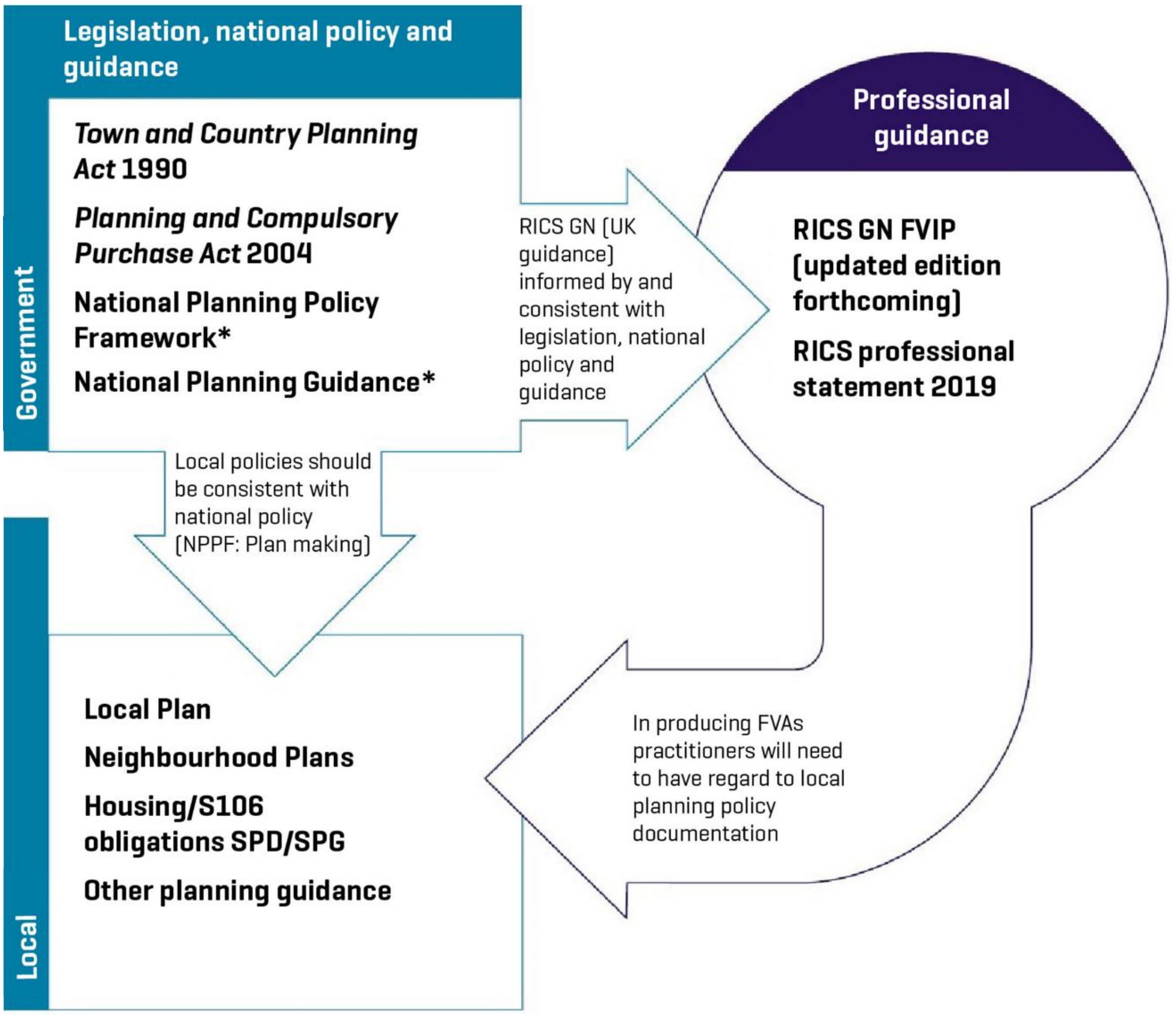
Appendix 2

Legislation, Policy and Guidance



Source: The RICS Financial Viability in Planning: Conduct and Reporting, (May 2019)

Appendix 3

Frequently Asked Questions on Viability Appraisals

Who do I submit the viability assessment to?

The FVA including cost plan should be submitted to the relevant DM officer as part of the supporting documents accompanying an application submission. If not available at submission, then the FVA should be submitted to the relevant Development Management case officer as soon as possible in the planning application assessment process. The FVA will only be reviewed once all relevant information has been submitted. The Property team will require 6 weeks from this point.

Do I have to provide an undertaking to pay costs of the Planning Authority's viability assessment review?

Yes. A fee for carrying out the viability review will be provided to the relevant case officer by Strategic Property upon receipt of all the requisite information set out above. An undertaking from the applicant to cover the review costs will be required before any work is undertaken by Strategic Property.

How should a viability assessment be presented and published to ensure accountability?

Complexity and variance are inherent in viability assessment. In order to improve clarity and accountability it is an expectation that any viability assessment is prepared with professional integrity by a suitably qualified practitioner and presented in accordance with National Planning Guidance. Practitioners should ensure that the findings of a viability assessment are presented clearly. An executive summary should be used to set out key findings in a clear way.

The inputs and findings of any viability assessment should be set out in a way that aids clear interpretation and interrogation by decision makers. Reports and findings should clearly state what assumptions have been made about costs and values (including gross development value, benchmark land value including the landowner premium, developer's return and costs). At the decision-making stage, any deviation from the figures used in the viability assessment to the plan should be explained and supported by evidence.

Should a viability assessment be publicly available?

Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances. Even in those circumstances an executive summary should be made publicly available. Information used in viability assessments is not usually specific to that developer and thereby need not contain commercially sensitive data. In circumstances where it is deemed that specific details of an assessment are commercially sensitive, the information should be aggregated in published viability assessments and executive summaries and included as part of total costs figures. Where an exemption from publication is sought, the planning authority must be satisfied that the information to be excluded is commercially sensitive. This might include information relating to negotiations, such as ongoing negotiations over land purchase, and information relating to compensation that may be due to individuals, such as right to light compensation. The aggregated information should be clearly set out to the satisfaction of the decision maker. Any sensitive personal information should not be made public.