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Welwyn Hatfield Borough Council - Combined Policy Viability Study

Strategic sites testing update

Prepared for
Welwyn Hatfield Borough Council

December 2016

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1 Introduction

This report outlines the results of the testing of four strategic sites in Welwyn and Hatfield Borough ('the Council'). This work updates BNP Paribas Real Estate's ('BNPPRE') previous Strategic Sites Testing Report (June 2016). It also follows the Combined Policy Viability Study Update ('CPVSU') report dated August 2016, 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 Draft Local Plan Proposed Submission 2016 ('DLPPS') and other key local policies and guidance as well as national policies. The report also considers the findings of the BNPPRE Community Infrastructure Levy Viability report (December 2016) by incorporating the proposed CIL rates.

This report has been prepared with the particular purpose of testing the cumulative impact of the Council's emerging requirements on the identified strategic sites including affordable housing, on-site Section 106 obligations, the Council's proposed CIL charges 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 sets out a planning framework for the borough, identifying how much and what type of development is needed and where it should or should not be accommodated. To support the delivery of housing and employment growth over the plan period the Council has identified a number of Strategic Development Sites ('strategic sites'). The four largest of these are identified in Table 2.1. Given the importance of these strategic sites to the local growth strategy the Council has instructed BNP Paribas Real Estate to consider their viability in detail as well as their potential to contribute to infrastructure through CIL..

Table 2.1: Strategic sites

Site ref.	Location	Development
HAT 1 (SDS5)	North West Hatfield	1,650 Homes 1 x Secondary School 2 x Primary School Retail Employment Community Buildings
WGC 4 (SDS1)	Panshanger Aerodrome	650 Homes 1 x Primary School Retail Community Buildings
WGC 5 (SDS2)	South East Welwyn Garden City	1,200 Homes 1 x Primary School Retail Community Buildings
Hat 15 (SDS6)	Symondshyde Village	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)		
WGC 4	24	650	200 sq m (A1)	30.2	23.3
			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. The size of units adopted in the study, have been informed by the minimum gross internal floor areas set out in the DCLG's Technical Housing standards' nationally described space standard published in March 2015.

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	70 sqm	79 sqm	102 sqm	124 sqm
HAT 1	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. These correspond with the sales values adopted in the CPVSU and recent CIL Viability Study.

Table 3.3.1: Sales values used in the appraisals

Location	Sales values (average £s per square metre)
HAT1 – North West Hatfield	£3,767
WGC4 – Panshanger Aerodrome	£3,767
WGC5 – South East Welwyn Garden City	£3,767
HAT15 – Symondshyde Village	£3,767

3.4 Residential sales rate

The Council have provided us with a breakdown of the phasing that they expect to be assumed for the four strategic sites tested in this report. All the sites tested provide over 500 units in total therefore we have assumed multiple sales outlets. 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 from all outlets (Units sold per calendar month)
HAT1 – North West Hatfield	6 – 13
WGC4 – Panshanger Aerodrome	5 – 7
WGC5 – South East Welwyn Garden City	4 – 7
HAT15 – Symondshyde Village	7- 12

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 capital receipt 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)	£161	7.25%	1.5 years	£2,364
WGC4	A1 – A5 (Retail)	£161	7.25%	1.5 years	£2,364
WGC5	A1 – A5 (Retail)	£161	7.25%	1.5 years	£2,364
HAT15	A1 – A5 (Retail)	£161	7.25%	1.5 years	£2,364

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

- Purchaser costs of 6.8%;
- 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;
- Contingency of 5% on build cost; and
- 20% profit on value.

3.6 Build costs and infrastructure

We have sourced build costs for the residential schemes from the RICS Build Cost Information Services ('BCIS'), which is based on tenders for actual schemes. Our gross base build costs are £1,114 per square metre and £1,333 per square metre for flats and houses respectively. This assumption is based on the information provided in our CPVSU and recent CIL Viability Study. We have therefore used the mean average BCIS 'Estate housing – generally' cost and the mean average BCIS 'Flats – generally' cost.

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. Our appraisals also include a contingency of 5% of build costs.

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 the site topography could present certain development challenges. We have included an allowance of £200,000 for the demolition of existing structures and buildings on sites WGC4 and HAT15.

We have included an allowance of £10,000 per residential unit for infrastructure costs on all the sites. In our experience such sites are likely to require the development of infrastructure such as servicing and roads etc. to open up the sites for development.

We have also incorporated site specific transport costs on the basis of information available to the Council at the time of this report. It should be noted that the transport costs are broad estimates and are likely to be refined as masterplanning of the strategic sites progresses. 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 transportation infrastructure contributions

Strategic Site	Total Cost	Phase Cost
HAT1 (North West Hatfield)	£15,000,000	Phase 1 - £9M
		Phase 2 - £3M
		Phase 3 - £3M
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

We understand that sites WGC4 and WGC5 are likely to require remediation/decontamination works. We have included an allowance of £2 million for WGC5 which may require remediation relating to previous landfilling and £1 million for WGC4 which may require minor remediation owing to the former use of the site as an airfield. It is worth highlighting that developers often pass the costs of

remediation of land onto landowners, and in this regard such costs would be deducted from the land value.

3.7 Affordable Housing

The Council's emerging planning policy SP 7 'Type and Mix of Housing' identifies that: *'As part of the overall housing target, a proportion of new homes built in the borough will be for affordable housing. Subject to viability, affordable housing will be sought on the following basis (for residential or residential-led mixed use schemes):*

- 25% on-site delivery target in Hatfield,
- 30% in Welwyn Garden City;
- 35% in the excluded villages;
- 30% in Symondshyde new village; and
- 30% Re-development or re-use of Major Developed Sites or other previously developed sites in sustainable locations compatible with Green Belt policy.

These on-site targets apply to developments, including mixed use schemes, involving 11 or more new dwellings or sites of 0.5 ha or more. The policy highlights that:

"In order to contribute to the creation of mixed communities, the priority will be for affordable housing to be delivered on the main application site. Off-site provision or a commuted payment will only be supported where it can be robustly justified and where it would result in the delivery of at least an equivalent number of new affordable homes or to a broadly equivalent value. Unless otherwise agreed, alternative delivery should be made within the same settlement as the main application site and still contribute to the creation of mixed communities."

The supporting text to Policy SP 7 in paras 9.3 and 9.4 highlights that:

"Evidence indicates that a range of affordable housing tenures, including social rent, affordable rent (at varying levels) and intermediate housing options such as shared ownership, will be required to meet the need for affordable housing. On affordability grounds, just over half of the newly arising need will require traditional social rented housing, but viability testing indicates that the delivery of social rented housing is likely to prove challenging in some parts of the borough. Market conditions are however likely to vary over the plan period and the precise mix, tenure and type of housing proposed on a site is likely to have a direct bearing on viability. The on-site delivery targets already reflect evidence of varying degrees of viability across the borough and these will be the starting point for decision making.

Applicants will need to demonstrate how they have taken into account the Council's latest evidence of need in terms of tenure, type and size of dwelling so that a range of housing is delivered. If it can be demonstrated that a scheme would not be viable, applicants should demonstrate how a proposal will, as far as is reasonably possible, address the identified need."

Given the above, the emerging SHMA results and advice from the Council 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 received Royal Assent in May 2016. Following discussions with the Council it has been agreed that despite the early stages of the introduction of Starter Homes and the lack of detailed regulations, Starter Homes are incorporated into the strategic sites testing detailed in this report.

We have therefore tested both a conventional affordable housing tenure split (based on a policy compliant tenure mix of 70% Affordable Rented, 30% Shared Ownership) and an affordable housing tenure split weighted in favour of Starter Homes. Starter Homes focused tenure splits were tested as follows as advised by the Council:

- 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

As with the CPVSU and CIL Viability Study we have used our bespoke model to value the Affordable Rent housing, which replicates how RPs undertake such appraisals. Our appraisals assume that the rented housing is let at rents that do not exceed Local Housing Allowance ('LHA') rates, so that they are affordable to households subject to the Universal Credit.

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. It should be noted that the Section 106 contributions are broad estimates and are likely to be refined as masterplanning of the strategic sites progresses. 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
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: 5% stamp duty land tax, 1% agent's fee and 0.8% legal fees;
- Marketing and disposal costs: 3% of private housing GDV;
- Legal fees: 0.5% of residential GDV;
- Sustainable homes: £5,000 per unit (as adopted in the CPVSU);
- SuDs: £2,500 per residential unit (as adopted in the CPVSU);
- Lifetime Homes: £3,200 per unit (as adopted in the CPVSU);
- Accessible units: £11,000 per flat and £26,000 per house (20% of units only) (as adopted in the CPVSU); and
- £100 per square metre CIL Charge for residential floorspace and £20 per square metre for commercial floorspace.

4 Appraisal results and analysis

4.1 Appraisal results and sensitivity testing

We have run appraisals of 4 strategic sites identified within the Council's emerging Local Plan. We have then converted the residual land values for each 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 CPVSVU adopted the following benchmark land values:

Benchmark Land Value	Description	Value (£ per gross ha)
1	Industrial/Warehousing/PDL	£828,286
2	Urban Openspace and other residential backlands	£500,000
3	Greenfield (higher)	£370,000
4	Greenfield (lower)	£250,000

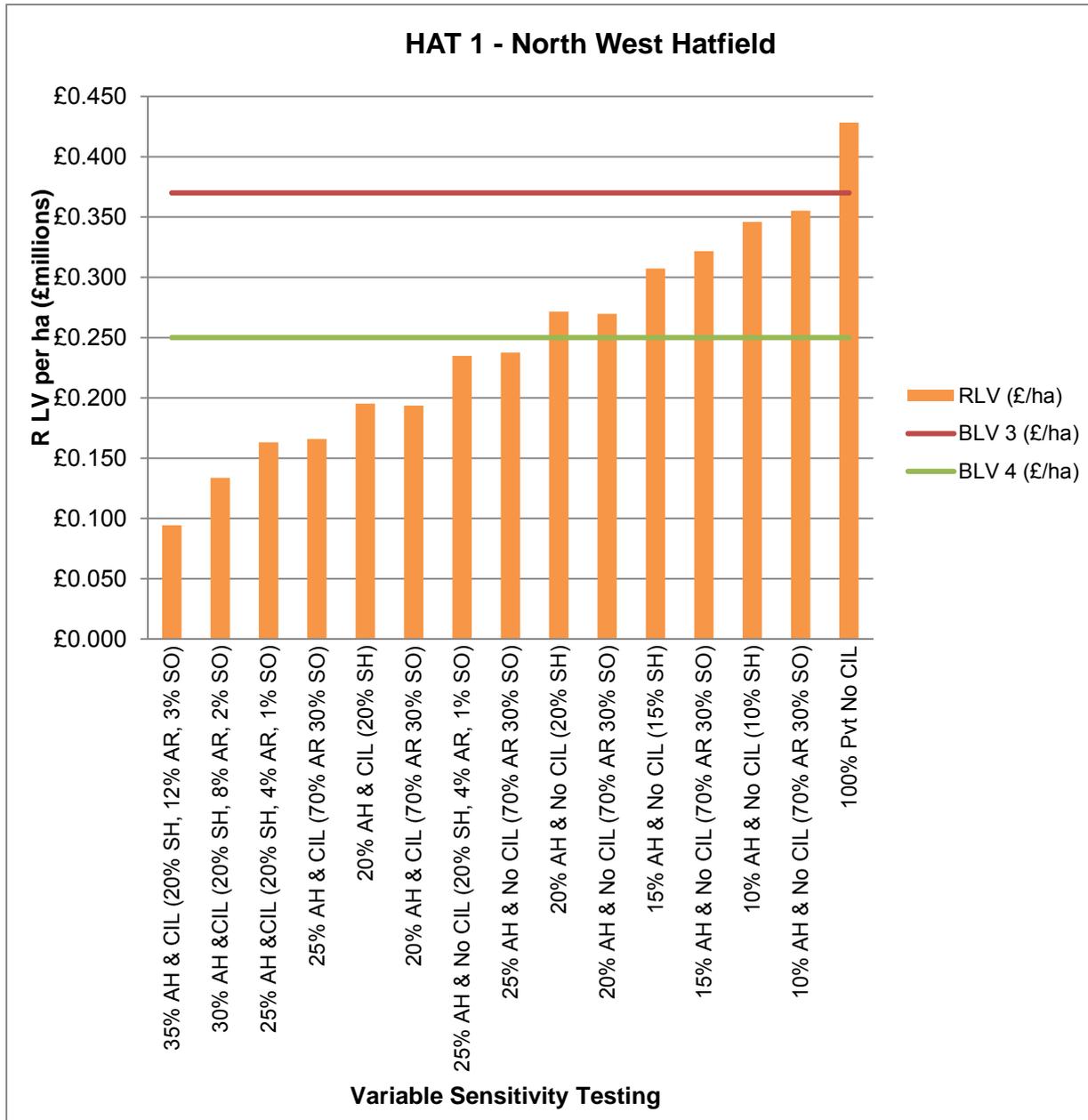
For this report we have tested the appraisal results against the most appropriate benchmark land value ("BLV") for each strategic site. The most appropriate benchmark land values for all the strategic sites are benchmark 3 and 4. The appraisals and results are summarised below.

4.1.1 HAT 1 – North West Hatfield

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

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35% AH & CIL (20% SH, 12% AR, 3% SO)	£12.172	£0.094
30% AH & CIL (20% SH, 8% AR, 2% SO)	£17.243	£0.134
25% AH & CIL (20% SH, 4% AR, 1% SO)	£21.052	£0.163
25% AH & CIL (70% AR 30% SO)	£21.408	£0.166
20% AH & CIL (20% SH)	£25.187	£0.195
20% AH & CIL (70% AR 30% SO)	£24.975	£0.194
25% AH & No CIL (20% SH, 4% AR, 1% SO)	£30.301	£0.235
25% AH & No CIL (70% AR 30% SO)	£30.655	£0.238
20% AH & No CIL (20% SH)	£35.024	£0.272
20% AH & No CIL (70% AR 30% SO)	£34.797	£0.270
15% AH & No CIL (15% SH)	£39.638	£0.307
15% AH & No CIL (70% AR 30% SO)	£41.501	£0.322
10% AH & No CIL (10% SH)	£44.620	£0.346
10% AH & No CIL (70% AR 30% SO)	£45.825	£0.355
100% Pvt No CIL	£55.256	£0.428

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



The results above demonstrate that strategic site HAT1 (North West Hatfield) is viable at between 20% and 25% affordable housing with no CIL contribution. However, when the upper range land value is adopted the site is viable at just below 10% affordable housing with no CIL.

The site's S106 contribution requirements, in particular the £30 million contribution towards education and £15 million contribution towards transport, which are significantly greater than the contributions required from the other strategic sites tested, have a major impact on the viability of the scheme.

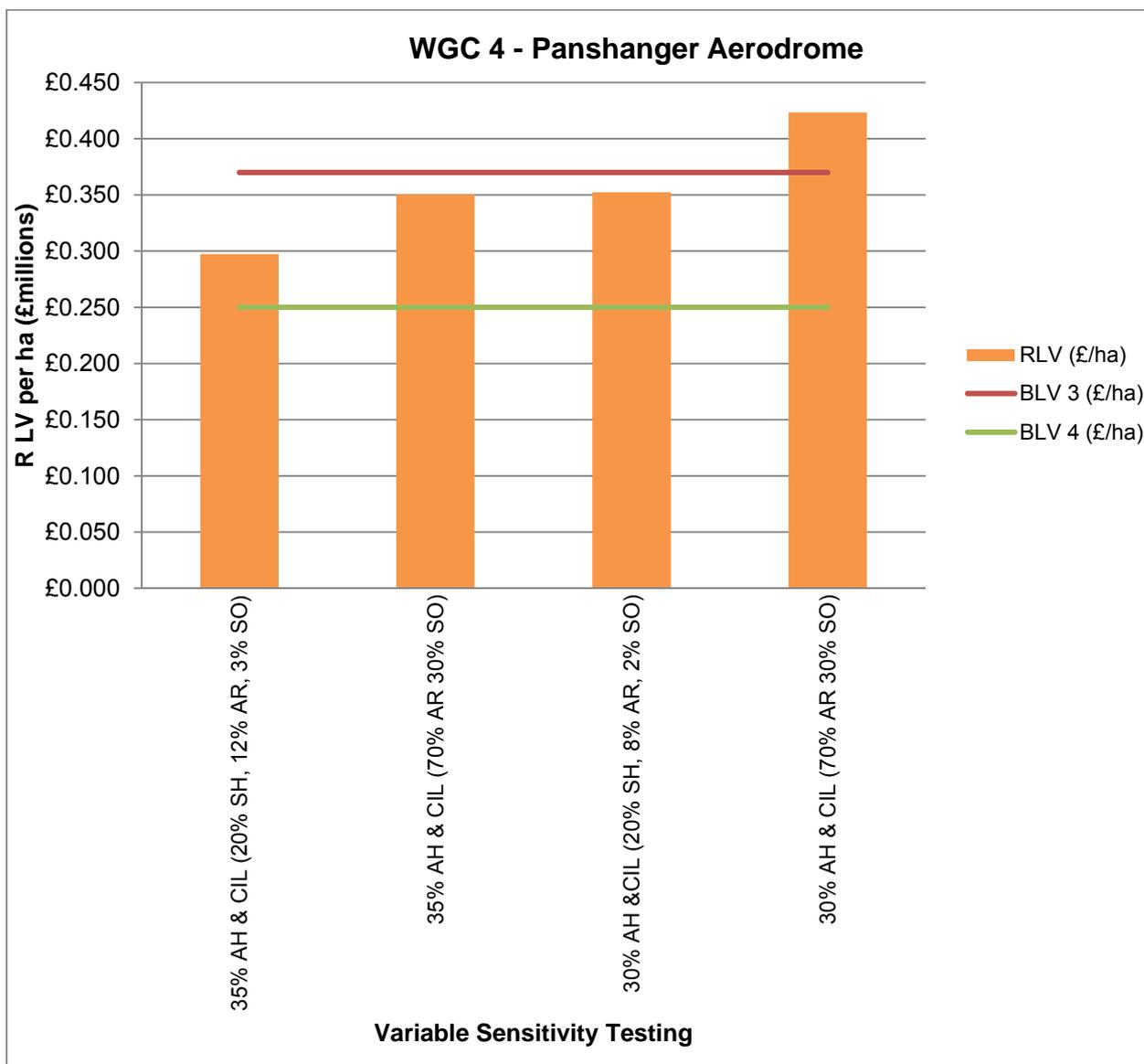
We are aware that the site benefits from minerals on site, and that the landowner has identified that there will be an income from the excavation of the minerals prior to the development of the site. Whilst a value has not been included within this appraisal relating to minerals excavation, it is noted that this will further support the site's viability.

4.1.2 WGC 4 – Panshanger Aerodrome

Table 4.1.2: Appraisal results – WGC4 (Panshanger Aerodrome)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35% AH & CIL (20% SH, 12% AR, 3% SO)	£8.981	£0.297
35% AH & CIL (70% AR 30% SO)	£10.583	£0.350
30% AH & CIL (20% SH, 8% AR, 2% SO)	£10.643	£0.352
30% AH & CIL (70% AR 30% SO)	£12.787	£0.423

Figure 4.1.2: Residual land values per hectare compared to benchmark land values (WGC4 – Panshanger Aerodrome)



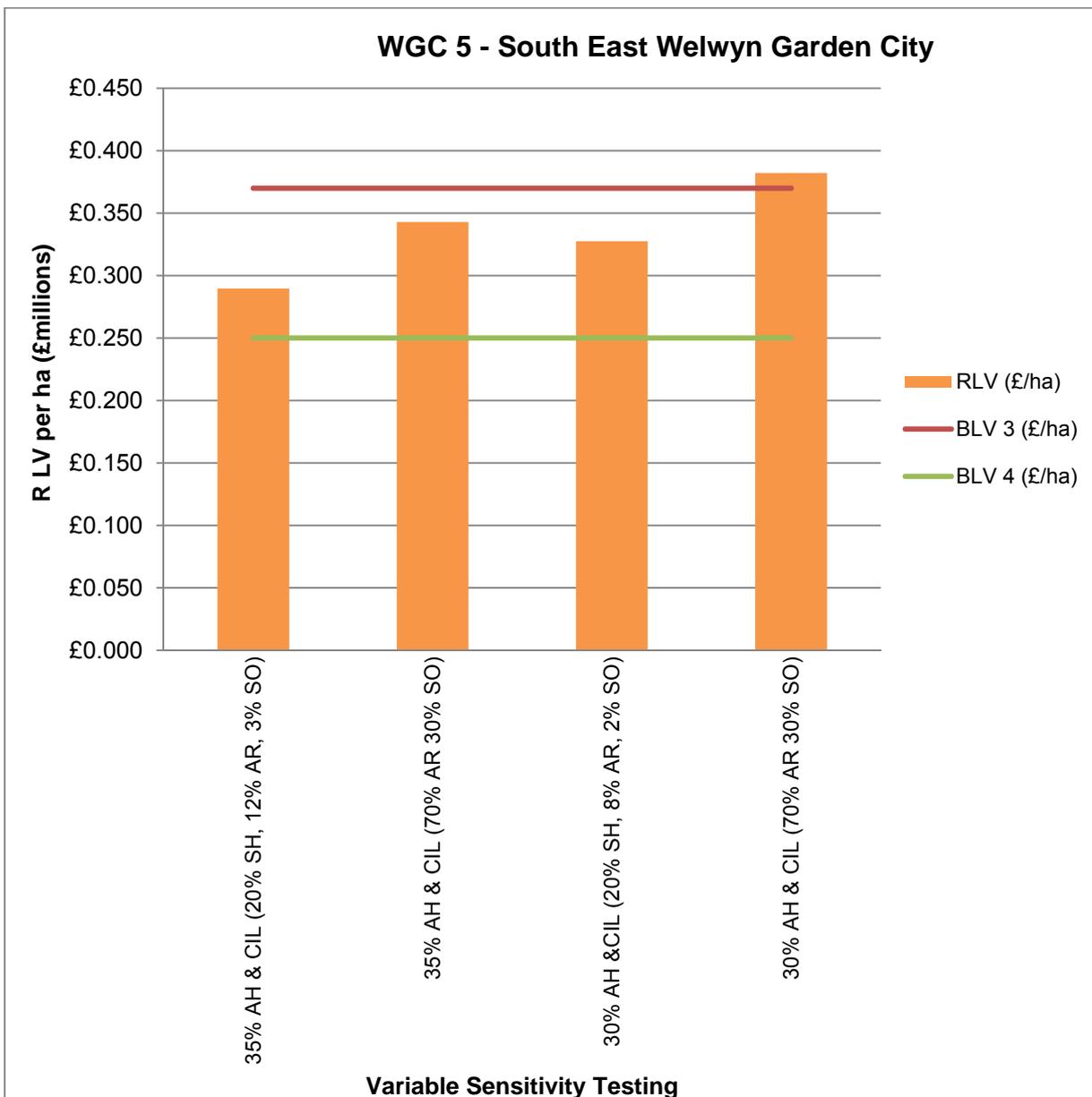
The appraisal scenarios of WGC4 (Panshanger Aerodrome) identify that the proposed scheme is viable against both the benchmark land values of £0.25 million per hectare and £0.37 million per hectare when delivering 30% Affordable Housing and the proposed CIL. Further, the scheme is viable against the lower benchmark at 35% Affordable Housing and the proposed CIL.

4.1.3 WGC 5 – South East Welwyn Garden City

Table 4.1.3: Appraisal results – WGC 5 (South East Welwyn Garden City)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35% AH & CIL (20% SH, 12% AR, 3% SO)	£17.954	£0.290
35% AH & CIL (70% AR 30% SO)	£21.258	£0.343
30% AH & CIL (20% SH, 8% AR, 2% SO)	£20.307	£0.328
30% AH & CIL (70% AR 30% SO)	£23.698	£0.382

Figure 4.1.3: Residual land values per hectare compared to benchmark land values (WGC5 – South East Welwyn Garden City)



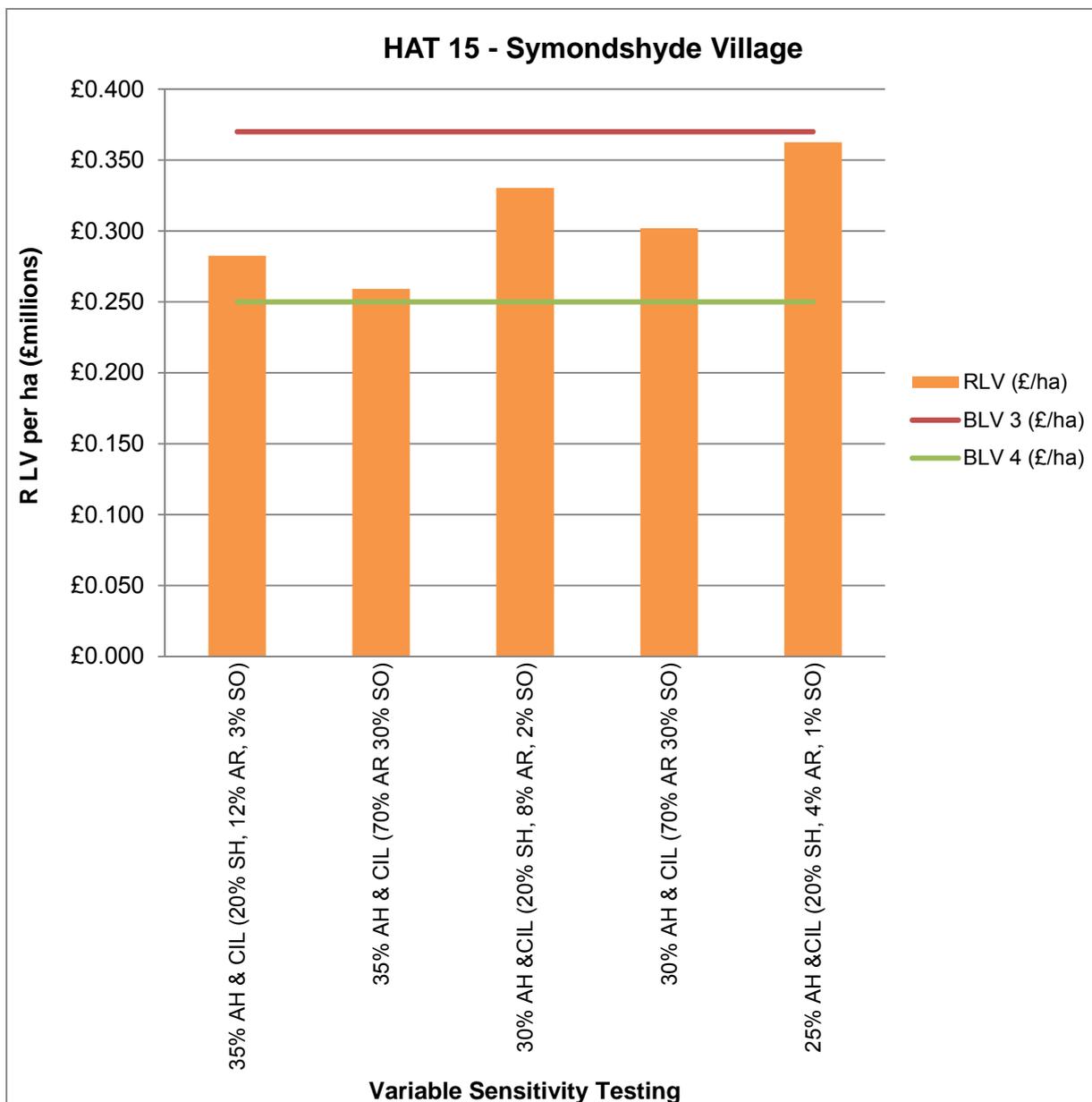
The table and figure above shows that strategic site WGC5 (South East Welwyn Garden City) is viable at 30% Affordable Housing and CIL when compared to both benchmark land values. The site is also viable against the lower benchmark land value at 35% Affordable Housing and the proposed CIL.

4.1.4 HAT 15 – Symondshyde Village

Table 4.1.4: Appraisal results – HAT 15 (Symondshyde Village)

% of Affordable Housing	Residual land value (£millions)	Residual land value per gross ha (£millions)
35% AH & CIL (20% SH, 12% AR, 3% SO)	£15.965	£0.283
35% AH & CIL (70% AR 30% SO)	£14.645	£0.259
30% AH & CIL (20% SH, 8% AR, 2% SO)	£18.667	£0.330
30% AH & CIL (70% AR 30% SO)	£17.065	£0.302
25% AH & CIL (20% SH, 4% AR, 1% SO)	£20.487	£0.363
25% AH & CIL (70% AR 30% SO)	£18.647	£0.330

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 the lower benchmark land value of £0.25M per hectare at both 35% and 30% Affordable Housing and CIL. Our sensitivity testing identifies that the site is likely to be viable at the higher benchmark land value at just below 25% affordable housing and CIL.

5 Conclusions and Recommendations

This testing demonstrates that three of the four strategic sites tested - WGC 4 (Panshanger Aerodrome), WGC 5 (South East Welwyn Garden City) and Hat 15 (Symondshyde Village) - are viable and deliverable having regard to both the Council's planning policy requirements (including affordable housing) and the proposed Community Infrastructure Levy charging rates set out in BNPPRE's Community Infrastructure Levy Viability report (December 2016). We note however that site HAT 15 is viable only at the lower greenfield land value. It is marginally unviable against the higher benchmark land value at 25% affordable housing.

Site HAT1 (North West Hatfield) has significant S106 requirements, which impact on the viability of the site. The study identifies that the site is viable at between 25% and 20% affordable housing with no CIL contribution when measured against the lower benchmark land value. However, when the upper range land value is adopted the site would be considered viable at just below 10% affordable housing with no CIL. The Council has confirmed that the site benefits from minerals on site, and that the landowner has indicated that there will be an income from the excavation of the minerals prior to the development of the site. A value has not been included within this appraisal relating to minerals excavation, however it is noted that any additional income relating to minerals would enhance the site's viability.

In light of the above we recommend that the Council applies its Affordable Housing Policy flexibly at Hat 1 (North West Hatfield) so that the site can come forward and deliver the maximum reasonable quantum of affordable housing. This will include considering the tenures being delivered and size of the units for these tenures e.g. the CPVSU highlighted that the delivery of larger units (3+ beds) as Starter Homes is likely to have an impact on quantum of affordable housing delivered.

With respect to CIL, we recommend that the Council considers applying its CIL charges as proposed to all the strategic sites with the exception of HAT1 where, as identified earlier in this report the S106 contribution requirements are likely to be significant. For HAT1, we would suggest that the Council considers the merits of adopting a nil CIL rate and seeking all infrastructure contributions through a S106 agreement.