Lambert Smith Hampton

PLANNING, DEVELOPMENT & REGENERATION

VIABILITY APPRAISAL

SKERNINGHAM STRATEGIC ALLOCATION

Haughton Grange,
Darlington
DL1 3JD

Skerningham Estates Limited
April 2021

lsh.co.uk

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This document has been prepared and checked in accordance with the Lambert Smith Hampton Quality Assurance procedures and authorised for release.

Signed: Lambert Smith Hampton

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For and on behalf of Lambert Smith Hampton

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1.0 INTRODUCTION

1.1 The Proposal

1.1.1 This viability appraisal is prepared on behalf of Skerningham Estates Limited, which is proposing residential development on the north east edge of Darlington. The land is identified in Darlington Borough Council's Proposed Submission Local Plan (August 2020) as a strategic housing allocation and variously known as the Skerningham Strategic Allocation or Skerningham Garden Community.

1.1.2 The Skerningham site is bordered by the Skerne River and Barmpton village to the north, the A167 to the west, Darlington's urban edge to the south and agricultural land to the east. Overall the site has capacity for around 4,500 new homes. In line with the Local Plan, this viability appraisal considers the delivery of 1,650 homes over the plan period to 2036. However with accelerated delivery we consider that 1,890 homes could be constructed within this timeframe.

1.1.3 In June 2019 the government granted the proposal Garden Community status, making it eligible for government assistance. Garden communities are to be exemplars of high quality place-making. They are to be *"well designed places with vibrant mixed use communities that support a range of local employment types and premises, retail opportunities, recreational and community facilities … offer a wide range of high quality distinctive homes … integrated, forward looking and accessible transport options … generous, accessible and good quality green & blue infrastructure …"*[1]

1.1.4 Notwithstanding these substantial levels of infrastructure, the government expects proposals to be deliverable and promoters are to consider:

a. Delivery models and timescales

b. Infrastructure requirements

c. Opportunities to capture land value

d. Access to finance and private sector investment.[2]

1.1.5 Skerningham Estates has appointed Lichfields to prepare an Infrastructure Delivery Plan. The purpose of this viability appraisal is to help inform the Infrastructure Delivery Plan and this proposed housing allocation. Our viability appraisal:

- Considers the characteristics of the site, its location, accessibility and ownership to understand development constraints and opportunities.
- Reviews draft planning policies and obligations;
- Considers guidance on viability appraisals for planning purposes;
- Researches the market for new homes in and around Darlington;
- Appraises the viability of delivering 1,650 homes and associated infrastructure over the plan period.

1.2 Terms of Instruction

1.2.1 This report is provided for the stated purpose and for the specific use of the named client.

1.2.2 In preparing this report LSH confirms that no performance related or contingent fees have been agreed and that LSH has no conflict of interest.

1.2.3 This report and financial viability appraisal has been prepared by Tim Knight MRICS, who has acted with independence, integrity and objectivity. He is a member of the RICS Valuer Registration scheme and has

[1] Paragraph 13, Garden Communities, MHCLG, August 2018
[2] Paragraph 15, ibid.

sufficient current local and national knowledge of the residential development market as well as appropriate skills, qualifications, experience and understanding for the purposes of this instruction. In preparing this report he has had regard to appropriate, available sources of information.

1.2.4 Tim Knight MRICS inspected the Application Site on 12 January 2021.

1.2.5 The development proposal is at an early stage and details are limited. LSH has been provided with the following documents, which provide high level information about the scheme. We have considered these and relied upon them in preparing our report and viability appraisal:

- Skerningham Strategic Allocation Delivery Framework prepared by Lichfields, dated September 2020.
- A note on Viability and Infrastructure Delivery prepared by Skerningham Estates Limited, dated September 2018.
- Cost estimate of providing primary access route prepared by Turner & Townsend, February 2021.
- Primary School High Level Costing prepared by Turner & Townsend, dated 26 February 2021.
- Retail High Level Costing prepared by Turner & Townsend, dated 26 February 2021.
- Health Centre High Level Costing prepared by Turner & Townsend, dated 26 February 2021.
- Phasing Plan prepared by Pod Architects, dated March 2021 and revised 7 April 2021.

1.2.6 LSH has also had regard to the Local Plan Viability Assessment prepared by Darlington Borough Council and dated December 2020.

2.0 THE SITE

2.1 Description

2.1.1 The undulating site, which extends to nearly 500 hectares, comprises arable farmland, with areas of grassland, pasture, a golf course, plantations and semi-natural woodland. The farmland is laid out as fields bounded by hedgerows in an irregular pattern. The River Skerne runs eastwards along the site's northern boundary before turning south to pass through the eastern end of the site. The East Coast Main Line railway splits the site towards its western end. A line of UHV electricity pylons runs east-west through the site. This urban extension will benefit from proximity to countryside, though the railway and pylons are constraints that could have a detrimental impact on the value of immediately adjacent houses.

2.1.2 The indicative masterplan proposes a new primary access road running the length of the site, effectively separating development cells to the south west from the open space to the north east. The development cells, separated by green space, would accommodate residential uses and a neighbourhood hub with community and retail facilities. The open space between the primary access road and the River Skerne, would include some retained farmland, the relocated golf course, recreational and habitat areas. The network of green infrastructure around development cells would increase the attractiveness of the housing areas, but the housing areas will be urban fringe rather than within countryside.

2.1.3 Within the boundaries of the site are collections of buildings at Low Beaumont Hill, Elm Tree Farm, Skerningham Manor, Low Skerningham, Elly Hill House and Darlington Golf Club. The indicative masterplan largely retains existing buildings; but we have assumed that some ancillary agricultural buildings, workshops and stores would become redundant and, where unsuitable for conversion to residential, would require demolition. Our viability appraisal excludes existing residential buildings that could remain occupied; but the cost of acquisition and demolition of barns, workshops, stores etc that are expected to become redundant as a result of the scheme, are included within the abnormal cost allowance

2.2 Location

2.2.1 The Skerningham Strategic Allocation is on the north east edge of Darlington, extending from the A167 in the west to the A66 in the south east. To the south and west the site is bounded by housing areas and to the east by farmland.

2.2.2 The adjoining residential areas of Beaumont Hill, Harrowgate, and Whinfield, provide a range of housing types and styles. But with the exception of affordable housing units at Celandine Close, Poppy Close and Foxglove Close, which adjoin the south-west corner of the site, there has been no recent housing development on these estates. For evidence of values of new housing we have had regard to current and recent developments elsewhere in Darlington and the surrounding area.

2.2.3 Darlington's more desirable and higher value residential areas are the leafy suburbs to the west of the town centre and villages in the surrounding countryside. Whereas lower values are achieved where former industrial areas to the east of the town centre are being redeveloped for housing. Values of new housing within the Skerningham Strategic Allocation are expected to exceed values of new housing at Lingfield and Central Park, but be lower than values achieved for developments in established and desirable suburbs or attractive villages on the edge of the town.

2.3 Access

2.3.1 The western end of the Skerningham Strategic Allocation fronts the A167 and the southern end fronts the A66 and A1150. The A167 runs north-south connecting Darlington town centre with junction 59 of the A1(M). The A66 dual carriageway skirts round the southern and eastern sides of Darlington, heading east to Teesside and linking to the A1(M) to the south-west of the town.

2.3.2 Two roads cross the eastern part of the site: Barmpton Lane which crosses the Skerne to provide access to Barmpton village and Bishopton Lane which heads north from the A1150 through countryside towards Sedgefield. Green Lane is a no through road that ends at the golf course. Skerningham Manor and Low

Skerningham are accessed via unmetalled tracks that lead east to Barmpton Lane and west, via a bridge over the railway, to Glebe Close. These are private and are gated.

2.3.3 The proposal is for a new primary access road running the length of the site, effectively separating the development cells to the south west from the open space to the north east. This new road would link with the A167 in the north western corner of the site, cross both the railway and the river, and connect via a new roundabout to the A1150 in the south east corner. The new primary access road would connect with Bishopton Lane and Barmpton Lane, which would both be upgraded. At the western end of the site a new road leading south of the primary access road would serve the development cells to the west of the railway and link back to the A167. A network of secondary roads would serve the development cells to the east of the railway.

2.3.4 The construction of the new primary access road is important to the delivery of the Skerningham Strategic Allocation as a whole, although early phases could be developed before its construction. A vehicle access and phasing strategy has been prepared by Fore Consulting. The construction of a new bridge over the railway would require the consent of Network Rail.

2.4 Tenure

2.4.1 The Skerningham Strategic Allocation is in various ownerships. We are advised by Lichfields that Skerningham Estates does not intend to assemble the whole site prior to development by purchasing land from other owners. We are further advised that legal agreements between Skerningham Estates and other landowners, allow for the apportionment between the landowners of uplifts in land value as a result of the scheme.

2.5 Planning Policy

2.5.1 The Council published a Proposed Submission Local Plan in August 2020. Representations received during the consultation period are to be submitted to the Planning Inspectorate for consideration as part of the plan's examination.

2.5.2 The Proposed Policies Map shows the Skerningham site as a strategic housing allocation. Policy H2 of the Local Plan, which lists proposed housing allocations, includes Skerningham (492.19 hectares) which is stated as having an indicative yield of 1,650 homes within the plan period and a further 2,850 homes after 2036.

2.5.3 Policy H5 sets out the level and type of affordable housing required in residential developments. For Skerningham the requirement is for 20% affordable housing, *"with approximately 50% as affordable rent and 50% as other affordable products."*

2.5.4 In Policy H10 which relates specifically to the Skerningham Strategic Allocation, the size and yield of the site are slightly different from those stated in H2. The size is stated as 487 hectares and during the plan period to 2036 the *"site is expected to deliver approximately 1,800 dwellings."*

2.5.5 *"To ensure that a cohesive development is delivered at Skerningham, the Council will only approve planning applications that* ***adhere with the masterplan*** *and* ***deliver the necessary local and strategic infrastructure*** *to support the development."* The key principles for development of the site are shown on an illustrative masterplan, replicated below. *"The site will provide:*

a. *A mix of housing types, tenures and sizes, including affordable and self/custom build housing … with higher densities being incorporated close to public transport routes and neighbourhood centres;*

b. *A centrally located and well connected neighbourhood centre providing local community facilities including a health hub, clustered with other facilities and services to meet the day to day needs of residents, education, employment opportunities and retail facilities. These facilities should be of a scale and type proportionate to the nature of the development;*

c. *Other local community facilities to serve residential areas as required, closely related to public transport, walking and cycling facilities;*

d. *Space for two primary schools, associated nursery provision (a total of 5.6 hectares) and a reserved space for a secondary school (5 hectares);*

e. *An integrated transport network focused on sustainable transport modes, including public transport, walking and cycling with strong links to adjoining communities, employment locations and Darlington town centre;*

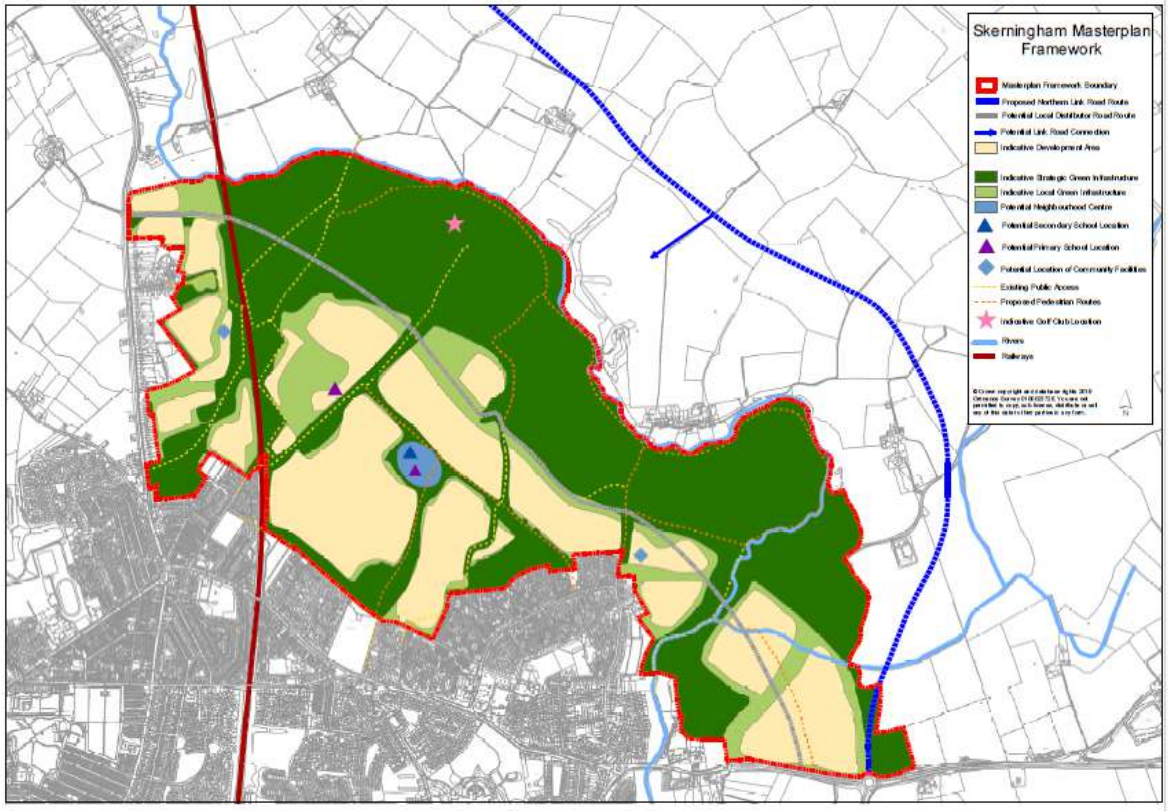
f. *Principal vehicular access points from the A167, A1150 and Barmpton Lane and include appropriate measures to mitigate the impact of development on the local road network;*

g. *A local distributor road between the A167 and A1150, close to the Little Burdon roundabout, which is to include a crossing of the East Coast Mainline and a corridor to enable the provision of a connection across the River Skerne to the Northern Relief Road route;*

h. *Other necessary infrastructure as required by the Infrastructure Delivery Plan and identified at the time of submitting a planning application;*

i. *A network of green and blue infrastructure …"*

Figure 6.1 Skerningham Masterplan Framework



Extensive infrastructure is necessary to support the development of the Skerningham Strategic Allocation and we would expect it to be a condition of planning approval. Estimated costs of major infrastructure items, prepared by relevantly qualified professionals, are included in our viability appraisal. The timings of these costs have regard to the phasing plan prepared by Pod (see Appendix 1).

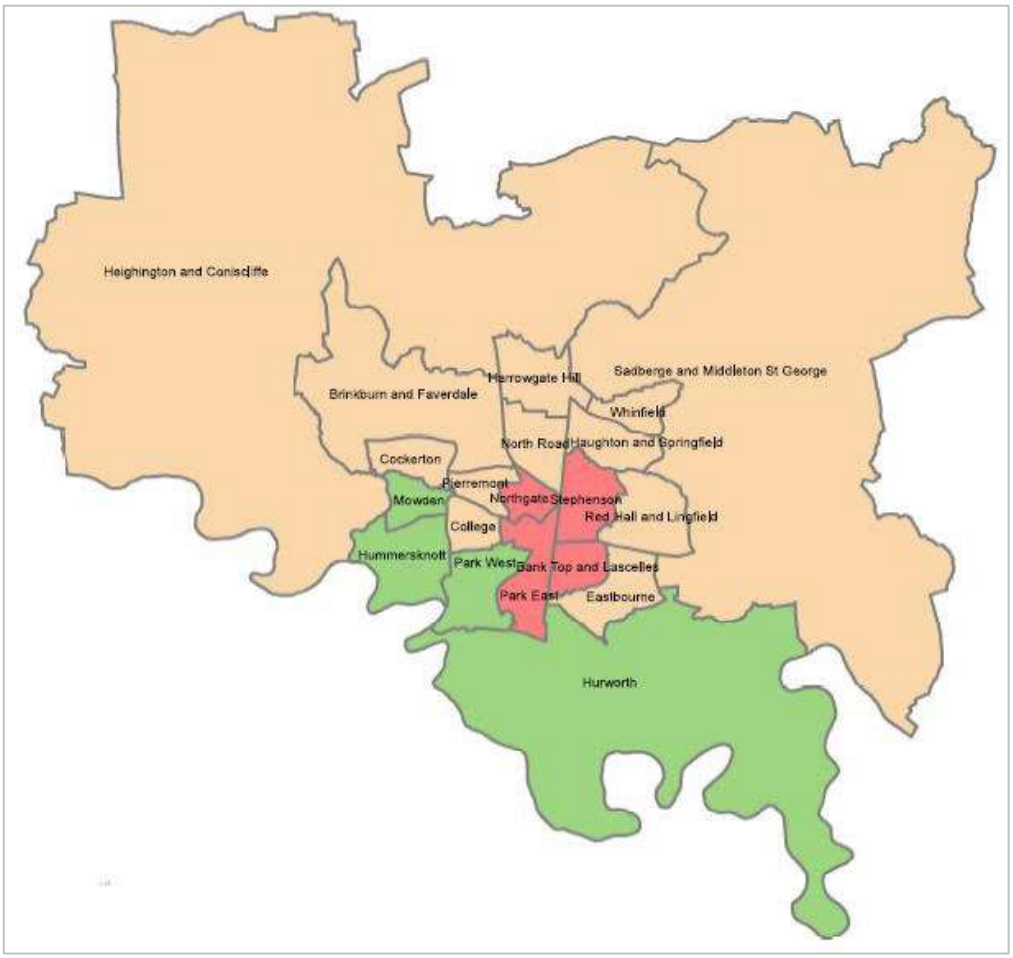
3.0 LOCAL PLAN VIABILITY ASSESSMENT

3.1 Summary

3.1.1 To support the Local Plan, Darlington Borough Council is required to test the viability of plan policies to ensure that they are deliverable and do not render development unviable. A Local Plan Viability Assessment was published in December 2020. This considers various residential development site typologies to examine:

- The viability of affordable housing quantum and mix.
- The viability of other Section 106 policy requirements (such as highways and education contributions, etc).
- Other policy provisions which could impact on scheme viability (such as the potential introduction of the Nationally Described Space Standards and certain Building Regulations standards e.g. M4 adaptable and accessible dwellings).

3.1.2 The assessment uses house price data to categorise wards within the Borough into high, medium or low value areas, as shown on the map below. The high value wards (shown green) include the south western suburbs and the villages to the south of the town. In and around the town centre are low value housing areas (shown red). To the north, west and east of Darlington, including the Skerningham Strategic Allocation, wards are categorised as medium value housing areas.



3.1.3 This high level assessment of Darlington's housing market broadly accords with our own understanding of the relative strength of the housing market areas, which has been informed by our analysis of asking prices for new housing.

3.1.4 The Council's Viability Assessment has regard to recent planning appeal decisions on development viability and to area wide viability studies commissioned by nearby local authorities, using these to inform its own assumptions. For each site typology the Council has modelled a base development appraisal, inputting the revenue and costs associated with that scheme. This has been modelled in accordance with the residual method, whereby the outcome is the land value (with all other inputs fixed costs). Each base appraisal has applied affordable housing at 0%, 10%, 20% and 30% to assess the residual land values for each. Where the residual land value is above the Benchmark Land Value, the scheme is deemed to be viable, if below it is deemed unviable.

3.1.5 Amongst the site typologies that the Council tested were urban extensions providing 100, 250, 500 and 1,000 dwellings in medium and high value areas. Regardless of size the tests showed that 20% affordable housing provision could be achieved in medium value areas and 30% in high value areas. In medium value areas the delivery of 20% affordable for urban extensions of 100 and 1,000 dwellings was identified as marginal, whereas for 250 and 500 dwellings schemes the provision of 20% affordable housing was identified as viable.

3.1.6 The Council's Viability Assessment undertakes site specific viability assessments of strategic sites that would provide a significant proportion of the planned housing supply. Site-specific assessments of the Greater Faverdale and Skerningham Strategic Allocations consider the viability of 20% affordable housing in medium value areas.

3.1.7 In summary whilst the Local Plan Viability Assessment provides reasoned assumptions for broad brush viability appraisals of various site typologies, a more detailed site specific approach is required for strategic housing sites that are to provide a significant proportion of Darlington's planned housing supply over the plan period. Our Viability Appraisal factors in some bespoke assumptions to better understand the viability of bringing forward the Skerningham Strategic Allocation.

4.0 GUIDANCE ON VIABILITY APPRAISALS FOR PLANNING PURPOSES

4.1 National Planning Policy Framework (NPPF)

4.1.1 The NPPF was revised in February 2019; the revisions took immediate effect.

4.1.2 Paragraph 22 of the NPPF states:

*"Strategic policies should look ahead over a **minimum** 15 year period from adoption, to anticipate and respond to long-term requirements and opportunities, such as those arising from major improvements in infrastructure."*

Proposed revisions to NPPF that are currently subject to consultation include an amendment to Paragraph 22, to clarify that councils who wish to plan for new settlements and major urban extensions will need to look over a longer time frame, of **at least** 30 years, to take into account the likely timescale for delivery.

4.1.3 Paragraph 34 of the NPPF states that:

"*Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan."* It follows that residential allocations should be capable of viable development and able to support the delivery of affordable housing and infrastructure where possible.

4.1.4 Paragraph 56 of the NPPF states that:

"Planning obligations must only be sought where they meet all of the following tests:

a) necessary to make the development acceptable in planning terms;

b) directly related to the development; and

c) fairly and reasonably related in scale and kind to the development."

4.1.5 *"Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage."*[3] The Framework recognises that there will be development proposals where the imposition of planning conditions and obligations would not be appropriate; the onus is on the applicant to demonstrate this.

4.2 Planning Practice Guidance (PPG)

4.2.1 The Government's National Planning Policy Guidance (NPPG) supports the NPPF and provides high level guidance with regard to specific planning issues and processes. The NPPG on viability was revised in September 2019 and sets out the Government's key principles in understanding viability in plan-making and decision-taking.

4.2.2 In assessing the gross development value, market evidence *"from the actual site or from existing developments can be used. Any market evidence used should be adjusted to take into account variations in use, form, scale, location, rents and yields, disregarding outliers."*[4]

4.2.3 *"Assessment of costs should be based on evidence which is reflective of local market conditions."*[5] The proposals for the Skerningham Strategic Allocation are at an early stage when an assessment based on average costs is appropriate, as there is insufficient detail to allow an elemental assessment of costs. Our viability appraisal uses data from the Building Cost Information Service (BCIS), which has been rebased to Quarter 2 2021 and to reflect the site's location. LSH has also had regard to local market conditions by

[3] Paragraph 57, ibid.
[4] NPPG (Viability) Reference ID: 10-011-20180724
[5] NPPG (Viability) Reference ID: 10-012-20180724

benchmarking BCIS construction costs against cost information from other residential schemes in County Durham.

4.2.4 For viability assessments the NPPG states that: *"a benchmark land value should be established on the basis of the existing use value of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements."*[6] The NPPG also states that: *"Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan."*[7] We consider the benchmark land value in in section 6 of this report.

4.2.5 The NPPG advises that *"potential risk is accounted for in the assumed return for developers … an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers ... Alternative figures may also be appropriate for different development types."*

4.2.6 *"Complexity and variance is 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 this National Planning Guidance."* This viability appraisal is prepared by a chartered surveyor and RICS Registered Valuer, supported by qualified planners, architects and cost consultants.

4.3 RICS Guidance

4.3.1 The Royal Institution of Chartered Surveyors (RICS) publishes guidance notes for surveyors undertaking specific professional assignments. *"These are intended to represent 'best practice', i.e. recommendations which in the opinion of RICS meet a high standard of professional competence".*[8]

4.3.2 The RICS guidance note *"Financial Viability in Planning"* was published in August 2012 to advise surveyors undertaking financial viability appraisals for the purpose of town planning decisions. The guidance note is consistent with and has regard to the NPPF.

4.3.3 The guidance note defines viability as: *"An objective financial viability test of the ability of a development project to meet its costs including the costs of planning obligations, whilst ensuring* ***an appropriate Site Value for the landowner*** *and a* ***market risk adjusted return to the developer*** *delivering that project".*[9]

4.3.4 *"The guidance note separates the two key components of development: land delivery and viable development. This is in accordance with the NPPF. Fundability is also an intrinsic element of both".*[10] For a development scheme to proceed all three of these bases will need to be covered. A landowner will only sell if he is offered an appropriate price for his land. A developer will only undertake the project if he is adequately rewarded for his risk and has appropriate levels of funding in place.

4.3.5 Financial viability appraisals *"can be used in two basic ways: first to assess the level of return generated from the proposed project where site cost is an input into the appraisal; and, secondly, to establish a residual Site Value by inputting a predetermined level of return".*[11] This financial viability assessment adopts the latter approach. We compare the residual land value generated by the project against a benchmark land value (see section 3) to assess whether the proposal is viable.

4.3.6 RICS guidance notes that: *"The benchmark return, which is reflected in a developer's profit allowance, should be* ***at a level reflective of the market at the time of the assessment being undertaken*** *… The level of profit*

[6] NPPG (Viability) Reference ID: 10-013-20190509
[7] NPPG (Viability) Reference ID: 10-006-20190509
[8] Page 1, Financial Viability in Planning, Royal Institution of Chartered Surveyors, August 2012.
[9] Paragraph 2.1.1, ibid.
[10] Executive Summary, ibid.
[11] Paragraph 2.2.2, Financial Viability in Planning, Royal Institution of Chartered Surveyors, August 2012.

required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle".[12]

4.3.7 Over the last decade a steady recovery in the regional housing market has reduced risks to developers and encouraged banks to provide development finance. In this improving economic and financial environment, developers and banks have been prepared to accept returns that were lower than the 20% of gross development value (circa 25% of costs) required as the economy came out of recession. The NPPG reflects this in the assumption for local plan viability testing of 15% to 20% of GDV (circa 20%-25% of cost where schemes are viable)[13]. Over the past year housing market activity has been stimulated by the government temporarily raising the stamp duty threshold in response to the economic impact of the Coronavirus pandemic. This relief originally intended to end in March 2021 has now been extended to the end of June. But for this, the combined economic impact of Brexit and COVID-19 might be expected to increase the risks of development. Our viability appraisal uses a blended profit based on 25% on cost for the market housing and 6% for the affordable units. This equates to 21.2% on cost or 17.49% on value.

4.3.8 RICS guidance notes that *"LPAs are concerned with the merits of the particular scheme in question. They should disregard who is the applicant … It follows that in formulating information and inputs to viability appraisals, these should disregard either benefits or dis-benefits that are unique to the applicant".*[14]

4.3.9 The RICS professional statement *"Financial Viability in Planning: conduct and reporting"* was published in May 2019 and *"sets out mandatory requirements on conduct and reporting in relation to FVAs for planning in England."* This FVA has regard to these requirements.

4.3.10 In March 2021 the RICS published a new guidance note *"Assessing viability in planning under the National Planning Policy Framework 2019 for England"*, which is effective from 1 July 2021. In due course it will replace the 2012 *"Financial Viability in Planning"* guidance note. Although not yet in force this FVA has regard to the guidance.

[12] Paragraph 3.3.2 Financial Viability in Planning, Royal Institution of Chartered Surveyors, August 2012.
[13] NPPG (Viability) Reference ID 10-018-20190509
[14] Paragraph 2.5.2, ibid

5.0 THE HOUSING MARKET IN DARLINGTON

5.1 House Prices

5.1.1 The government has granted Garden Community status to the Skerningham site. Development sites with this status are expected to be exemplars of high quality place-making. High quality homes in well-designed places, with a range of local facilities and generous levels of good quality green space should command a premium over some other housing areas within Darlington. In assessing values of homes at Skerningham we have had regard to prices that have been achieved for a range of house types in different locations in and around Darlington and evidence of recent price movements, using various Land Registry data sets, housebuilders marketing material and other sources.

5.1.2 Recent evidence of house prices should be understood within a wider market context. The table below uses average price data from the Land Registry House Price Index. Over the past five years, average house prices across the Borough of Darlington rose by 7.6%. Growth has been strongest amongst detached and semi-detached houses with prices rising 8.9%; whereas the price of flats has barely changed.

House Price Growth in the Borough of Darlington, 2015 - 2020

House Type	Average Price Nov 15	Average Price Oct 20	Change
Detached	£210,006	£228,760	8.9%
Semi-detached	£125,306	£136,491	8.9%
Terraced	£95,039	£101,325	6.6%
Flat	£79,225	£79,761	0.7%
All Property Types	**£124,431**	**£133,940**	**7.6%**

5.1.3 As noted in section 2.2, Darlington's housing market is not homogenous. Desirable suburbs to the west of the town centre and villages on the edge of the urban area command higher prices, whereas prices for new homes in regeneration areas near the town centre are lower. To understand the comparative strength of housing markets across Darlington we have analysed sale prices by postcode sectors.

5.1.4 The Skerningham Strategic Allocation is situated within the DL1 postcode area which covers the eastern half of Darlington's urban area and is split into five sectors. DL1 3 is the northernmost and extends from the edge of Sadberge in the south-east, to Brafferton in the north-west and Harrowgate Hill in the south-west. This sector includes the Skerningham Strategic Allocation, as well as the adjoining residential estates to the north of the A1150 and to the east of the A167.

5.1.5 In the table below Land Registry Price Paid Data is used to compare average prices for new and second-hand houses in the DL1 3 postcode sector, and immediately adjoining residential suburbs: postcode sector DL1 2 to the south and DL3 0 to the west. The average price of second-hand properties in DL1 3 is some 25% higher than those in the suburbs to the south and 15% higher than those to the west.

Sales of Houses, 2015 – 2020

	Second-hand		New Build	
Postcode Sector	Volume	Average Price	Volume	Average Price
DL1 3	535	£144,327	5	£123,500
DL1 2	594	£115,666	41	£163,254
DL3 0	926	£125,505	65	£168,510

5.1.6 The average price of new build houses suggests that the areas to the west are a little better than those to the south. But with so little recent housing development within DL1 3, the sample size is too small to allow

comparison with other areas. Moreover, the five new build houses sold in the last five years were all, semi-detached homes constructed by Thirteen Housing Group, which may have been sold at a discount to market values; even if this is not the case, the sample is unrepresentative, skewed towards smaller unit sizes and of limited use in assessing the market value of new homes on the Skerningham site.

5.1.7 In the table below we compare both average and maximum prices of detached and semi-detached houses in these same three postcode sectors. Maximum prices provide an insight into the upper limit of the market, but are of limited help in informing the general tone of prices. Less than 3% of detached houses in these postcode sectors sold for more than £350,000; and less than 1% of semi-detached houses sold for more than £200,000.

5.1.8 The average price of a detached house in the DL1 3 postcode sector is higher than in adjoining areas. Within DL1 3 higher value properties are clustered at Beaumont Hill, Great Burdon and Barmpton Lane, or are situated within the Skerningham Strategic Allocation. These higher value properties are typically within or adjoining open countryside, not within modern housing estates.

Average and Maximum Sale Prices, 2015 – 2020

	Detached		Semi-detached	
Postcode Sector	Average Price	Maximum Price	Average Price	Maximum Price
DL1 3	£211,685	£675,000	£124,559	£385,000
DL1 2	£180,415	£415,000	£120,454	£270,000
DL3 0	£203,566	£699,999	£129,494	£270,000

5.2 Land Values

5.2.1 Recent sales of greenfield land for residential development in and around Darlington are summarised in the table below. Prices range from £470,000 to £1.1 million per hectare (£190,000 to £448,000 per acre). There is no particular pattern to these prices, with sites in higher value areas at either end of the range of values. But we note that the lowest price per acre is for the land at Blackwell where the retention of areas of trees and landscaping has resulted in a low density scheme with only 65% of the site developable. The impact of the net:gross ratio on the land value is also pertinent to the Skerningham Strategic Allocation.

Recent Sales of Residential Development Land in the Borough of Darlington

Scheme	Description	Gross area (ha)	Net: gross ratio	Density (units / ha gross)	Date of Sale	Price	Price per ha (gross)
Howards Green, West Park (Thirteen)	Former farmland. Medium value area. New infrastructure to edge.	4.17	100%	23.5	Dec 2019	£4,153,742	£996,100
Coniscliffe Grange, Low Coniscliffe (Robertson)	Former farmland. High value area.	3.56	100%	8.4	Aug 2019	£3,940,000	£1,106,700
Romangate, Middleton St George (Advent)	Former farmland. Medium value area.	2.17	100%	9.7	June 2019	£1,680,000	£774,200
The Willows, Blackwell (Story)	Former golf course. High value area. Relatively high infrastructure requirement.	9.51	65%	6.2	Mar 2018	£4,475,000	£470,600

6.0 LAND VALUE

6.1 Methodology

6.1.1 The NPPG states that *"a benchmark land value should be established on the basis of the existing use value of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements."*[15]

6.1.2 The Harman Review[16] recognised the practical difficulties of establishing a benchmark land value. *"The premium should take account of the make-up of key landowners within the area and their interests. In areas where landowners have long investment horizons and they are content with current land use, the premium will be higher than in those areas where key landowners are more minded to sell. … Local sources should be used to provide a view on market values (the 'going rate'), as a means of giving a further sense check on the outcome of the current use plus premium calculation. In setting* [a Benchmark Land Value] *it is important to avoid assuming that land will come forward at the margins of viability."*

6.1.3 *"It is widely recognised that this approach can be less straight forward for non-urban sites or urban extensions, where landowners are rarely forced or distressed sellers, and generally take a much longer term view over the merits or otherwise of disposing of their asset. This is particularly the case in relation to large greenfield sites where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations. Accordingly, the uplift to the current use value sought by landowners will invariably be significantly higher than in an urban context and requires very careful consideration".*

6.1.4 The Skerningham Strategic Allocation is not in single ownership. Skerningham Estates Ltd (an associated company of Theakston Estates) has the largest land holding, around 60%. Skerningham Estates buys and sells real estate and has been assembling its landholding here since the 1980s. It is not in the position of a landowner that is considering future generations and thus requiring a significant uplift in the current use value to be persuaded to sell.

6.1.5 NPPG further states "*Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners."*

6.1.6 *"This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time."*

6.1.7 It follows that market evidence of policy compliant schemes can be used to inform the benchmark land value. But it should be noted that the prices paid for sites will reflect site specific abnormal costs or off-site infrastructure provision as well as the surrounding housing market area

6.2 Existing Use Value

6.2.1 The Ministry of Housing, Communities & Local Government publishes land value estimates for policy appraisal using data from the Valuation Office Agency. Within both the Tees Valley LEP area and the adjacent North East LEP area the value of agricultural land is stated as £16,000 per hectare (£6,500 per acre).

[15] NPPG (Viability) Reference ID: 10-013-20190509
[16] Viability Testing Local Plans – Local Housing Delivery Group ('Harman Review' – June 2012)

6.3 Benchmark Land Value

6.3.1 The LPVA considers benchmark land values used for other Local Plan Viability Assessments in the region. For greenfield sites, values range from £200,000 to £900,000 per hectare (£80,000 - £364,000 per acre). The Council notes that *"for agricultural land, where values will be relatively consistent regardless of locational factors, the level of premium will be significantly higher (and can fluctuate typically from 5 to 25 times the EUV)."* These are wide parameters, and whilst Darlington Borough Council applies one of three Benchmark Land Values to greenfield sites depending on the site's location; in the market for residential land, values reflect densities, abnormals and other site specific factors. The Council's BLVs are:

- High Value Area £618,000 per hectare (£250,000 per acre)
- Medium Value Area £494,000 per hectare (£200,000 per acre)
- Low Value Area £371,000 per hectare (£150,000 per acre)

6.3.2 The Skerningham Strategic Allocation is within a medium value area, but with substantial infrastructure required to bring it forward for housing development and a low net:gross ratio in keeping with its garden community status, a Benchmark Land Value lower than the Council's indicative £494,000 per hectare is appropriate. A BLV of £250,000 to £300,000 per hectare (£100,000 - £120,000 per acre), which represents an uplift of 15 to 19 times the Existing Use Value, would provide a suitable level of return to the landowners.

7.0 APPRAISAL ASSUMPTIONS

7.1 Introduction

7.1.1 In this section we set out the assumptions used in our financial viability appraisal, comparing them with those used in Darlington Borough Council's Local Plan Viability Assessment (LPVA) and with our own analysis and knowledge of the market.

7.2 Developable area

7.2.1 Plans and proposals for the development of the Skerningham Strategic Allocation are at an early stage and thus calculations of developable areas are estimates which will be refined as the detail is worked up. Appendix A of the LPVA states the gross site area of the Allocation as 490.99 hectares. This is between the two figures quoted in the Local Plan (492.19 ha & 487 ha). The differences between these figures, which equate to only 1% of the total area, are not material.

7.2.2 The LPVA estimates that the northern part of the site, which would remain in agricultural use and accommodate the relocated golf course, comprises around 45% of the gross area. More recent and detailed work by Pod has established that the gross development area of the southern part of the site is around 234.16 hectares.

7.3 Gross to net ratios

7.3.1 In estimating net developable areas the LPVA applies gross to net ratios according to the size and typology. The LPVA has regard to ratios used by other local authorities in North East England which range from 50% to 100%. Darlington's ratios generally range from 100% for sites with capacity for up to 10 units to 60% for urban extensions of 1,000 units. To the two Strategic Allocations at Faverdale and Skerningham the Council has applied ratios of 53% and 50% respectively; the latter slightly lower recognising garden community status

7.3.2 Pod's more recent and detailed phasing plan identifies a net developable area of around 137.92 ha, which equates to a net:gross ratio of 58.9%.

7.3.3 From Pod's Phasing Plan we estimate that the delivery of 1650 units within the plan period requires a net developable area of 50.14 ha; this is equivalent to a gross area of 85.13 ha.

7.4 Density

7.4.1 In assessing development densities the LPVA has regard to the approach of other local authorities in North East England. Some of these local authorities have used a single figure and others a range of densities. Overall the range is from 20 to 50 dwellings per net developable hectare. Darlington Council has taken the mid-point and applied 35 dwellings per net hectare. It should be noted that this density has been calculated after netting out 50% of the developable area and so it will exclude open space between development cells, primary access roads, etc.

7.4.2 Pod's phasing plan applies densities of 30 or 35 dwellings per hectare to the various development cells.

7.4.3 We have analysed the density of a sample of new housing developments in Darlington. Our findings are set out in the table below. Densities range from 8.4 to 42.0 dwellings per hectare. The Council's assumed density of 35 dwellings per hectare and Pod's 30 to 35 dwellings per hectare are towards the upper end of this range.

7.4.4 The density of development will reflect the type of housing proposed, for instance large detached houses in high value areas will be built at lower densities. A density of 30 - 35 dwellings per hectare suggests a mix of housing types to include detached, semi-detached and perhaps a small proportion of terraced/ town houses. This is appropriate for the Skerningham Strategic Allocation, which is in a medium value area.

Development Density of New Housing in Darlington

Scheme	Housing Area	Housing Mix	Net developable area (ha)	Dwellings	Density (dwgs/ha)
Celandine Close, (Thirteen)	Medium value	Flats 6% Terraced 18% Semis 76%	0.81	34	42.0
Avro Close, Middleton St George (Miller)	Medium value	Semis 52% Detached 48%	0.68	27	39.7
Whitworth Drive, Middleton St George (Miller)	Medium value	Semis 14% Detached 86%	1.37	42	30.7
Miles Grove, Middleton St George (Miller)	Medium value	Terraced 6% Semis 15% Detached 79%	2.00	53	26.5
Howards Green, West Park (Thirteen)	Medium value	Semis 29% Detached 61%	4.17	98	23.5
Romangate, Middleton St George (Advent)	Medium value	Detached 100%	2.17	21	9.7
The Willows, Blackwell (Story)	High value	Detached 100%	6.15	59	9.6
Coniscliffe Grange, Low Coniscliffe (Robertson)	High value	Detached 100%	3.56	30	8.4

7.5 Number of units to be constructed in plan period

7.5.1 Analysis of new housing development in and around Darlington identifies a strong correlation between the size of scheme and delivery rates, with larger schemes achieving higher annual housing delivery. Housebuilders typically build out schemes at a rate that matches anticipated sales rates. These sales rates can be influenced by market conditions. In the table below Land Registry data is used to assess annual sales achieved on recent housing developments in and around Darlington, but it should be noted that all these schemes are much smaller than the proposed Skerningham Garden Community. The highest annual sales rate has been 73 houses per annum at the 215 unit Hunters Fold scheme at Middleton St George that has been jointly developed by Story Homes and Miller Homes. The highest sales rate on a single developer scheme has been at Taylor Wimpey's Lingfield Point development, where 67 units were sold in 2018 and 59 in 2017. The scale of Skerningham allows for multiple housebuilders developing concurrently.

Development	Sales per annum						
	2016	2017	2018	2019	2020	Total	Max
Hunters Fold, Middleton St George, DL2 1RA		43	73	73	26	**215**	**73**
Lingfield Point, DL1 1QA	43	59	67	20		**189**	**67**
Central Park, DL1 1GX	55	41	11	21	5	**133**	**55**
Greener Drive, DL1 5	24	16	20	4		**64**	**24**
Fairway, DL1 2EF			2	50	10	**62**	**50**
Kingfisher Way, DL1 1FS		17	32	6		**55**	**32**
Mannerton Grove, DL3 0AR		4	27	4		**35**	**27**
School Street, DL3 0UG		12	16			**28**	**16**
Ravensgarth Drive, DL3 8EH			3	18	1	**22**	**18**
The Waterside, Middleton St George, DL2 1HT	8	4				**12**	**8**

7.5.2 Past housing delivery on large strategic housing sites in North East England has been analysed by Lichfields. [17] This research identifies that at Great Park, Newcastle the maximum annual delivery was 246 units and the average 180 units per annum; and at Northumberland Park, North Tyneside the maximum was 194 dwellings and the average 104 dwellings per annum. Lichfields has also compared the projected delivery trajectory at Skerningham with other Garden Communities in the North East. The anticipated delivery of 150 dwellings per annum, which is 3.3% of total site capacity aligns with the identified delivery trajectory of other Garden Communities and would not be overly ambitious.

7.5.3 The Local Plan anticipates that at Skerningham around 1,650 dwellings will be delivered within the plan period, rising over the early years of development to reach a build out rate of 150 units per annum. The delivery of 1,650 units and a neighbourhood centre requires an estimated net developable area of 50.14 hectares over the plan period. Our appraisal adopts the delivery trajectory in the table below.

Proposed Build Out Rate at Skerningham

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Units p.a.	30	60	90	120	150	150	150	150	150	150	150	150	150
Units - cumulative	30	90	180	300	450	600	750	900	1050	1200	1350	1500	1650

7.6 Average Dwelling Sizes

7.6.1 The Council's LPVA reviewed the size of newly built homes in 2018 and 2019 by comparing Land Registry data to identify new homes with EPC floorspace data. From this data the Council assessed the average size of a new house in Darlington to be 95 sq m. Our appraisal applies an average size of 95 sq m to the market housing. For the 20% of affordable housing within the scheme the appraisal applies an average size of 80 sq m in line with typical provision.

7.7 Sales Values

7.7.1 The Council's LPVA analyses the price per sq m of newly built homes in 2018 and 2019 by using a combination of Land Registry price paid data and floor areas from EPCs. The LPVA identifies the average price of a new house in a medium value area as £2,099 per sq m (£195 psf). Given modest house price inflation we would expect this average figure to have increased. The Land Registry House Price Index identifies that in Darlington average prices increased 6.6% between January 2019 (the mid-point of the Council's recording period) and January 2021 (the most recent month recorded). Applying this 6.6% increase to the LPVA average of £2,099 per sq m would result in a value of £2,238 per sq m (£208 psf).

7.7.2 Asking prices for houses on current development schemes allow an alternative analysis. Where marketing material for a development provides floor areas for different house types we have analysed the asking prices on a floor area basis. These are summarised in the table below. Asking prices range from £2,131 to £3,036 per sq m (£198 to £282 psf). On those schemes in medium value areas the range is £2,142 – £2,748 per sq m (£199 - £255 psf). These current asking prices suggest that the Council's figure is on the low side. We further consider that a premium could be applied to reflect Skerningham's Garden Community status and that prices equating to £2,314 per sq m (£215 psf) could be achieved in the current market.

Asking Price per square foot GIA

Development	Market Area	Developer	Number of units	Price per sq m	Price psf
The Orchard, West Park	Medium value	Barratt	43	£2179 - £2660	£202 - £247
Howards Green, West Park	Medium value	Thirteen	98	£2142 - £2359	£199 – £219

[17] "Start to Finish: What factors affect the build-out rates of large scale housing sites?" Second Edition, Lichfields, 2020

Romangate, Middleton St George	Medium value	Advent	21	£2591 - £2748	£241 - £255
Hallside, Mowden Hall	High value	Linden	30	£2768 - £3038	£257 - £282
The Willows, Blackwell	High value	Story	59	£2608 - £2761	£242 - £256
Coniscliffe Gardens, Low Coniscliffe	High value	Robertson	30	£2618 - £2735	£243 - £254
Hurworth Gardens, Hurworth	High value	Bellway	100	£2289 - £2604	£213 - £242
Hurworth Hall Farm, Hurworth	High value	Miller	95	£2131 - £2507	£198 - £233

7.7.3 Taking an average unit size of market housing of 95 sq m and an average price of £2,260 per sq m results in an average price for a new home of £214,700. We can compare this with asking prices for new housing in and around Darlington. In the table below we compare asking prices for different house types on various housing developments. The average price falls in the middle of the range of house types and is representative of what might be paid for a three bedroom detached house in a medium value area of Darlington.

Range of Asking Prices for Different House Types on Development Sites in Darlington

Development	Market Area	Developer	2 bedroom semi-detached	3 bedroom semi-detached	3 bedroom detached	4 bedroom detached	5 bedroom detached
Central Park	Low	Keepmoat	£129k				
The Orchard, West Park	Medium	Barratt		£182k	£220k	£300	
Howards Green, West Park	Medium	Thirteen		£190k		£270k - £325k	£370k - £400k
Jeremiah Drive, West Park	Medium	Bussey & Armstrong			£180k	£280k - £420k	
West Park Garden Village	Medium	Esh	£130k - £140k	£165k - £210k	£180k - £215k	£220k - £295k	
Hunters Fold, Middleton St George	Medium	Miller	£138k	£125k - £180k	£205k - £222k	£240k - £298k	£310k - £345k
Lancaster Park, Middleton St George	Medium	Esh		£200k – £205k	£195k	£225k - £285k	
Romangate, Middleton St George	Medium	Advent				£485k	£545k - £555
Hallside, Mowden Hall	High	Linden			£271k - £278k	£286k	
The Willows, Blackwell	High	Story					£530k - £690k
Coniscliffe Gardens, Low Coniscliffe	High	Robertson				£445k - £450k	£450k - £535k
Hurworth Gardens, Hurworth	High	Bellway				£300k - £395k	£470k
Hurworth Hall Farm, Hurworth	High	Miller			£220k	£255k - £328k	£345k - £420k

7.8 Transfer Values

7.8.1 The Council's LPVA compares transfer values used in other Local Plan Viability studies in North East England in arriving at transfer values of 45% of market value for social rented housing and 75% for intermediate housing. LSH noted that in applying 45% of market value the transfer value of social rented units would not cover the

cost of their construction; thus in line with Durham County Council's figure our appraisal uses 50% of market value.

7.9 Build Costs

7.9.1 The Council's LPVA uses cost data from the RICS Building Cost Indices Service (BCIS). For development schemes at an early stage, BCIS is an appropriate source of cost data. The BCIS lower quartile cost is typically used in preference to the median cost to reflect the economies of scale that the national and major regional housebuilders are able to make, and recognising that these major housebuilders do not contribute data to BCIS. The BCIS lower quartile cost for two-storey estate housing in Quarter 2 2021, rebased to reflect its location is £994 per sq m. LSH has benchmarked this rate against construction costs of two other housing schemes in County Durham that it is currently valuing. Both are greenfield sites on the edge of towns and adjoining established residential areas.

7.9.2 BCIS cost data excludes external works, contingencies and abnormals

7.10 Externals

7.10.1 The LPVA cites an independent review of viability appraisals in adopting 15% of build costs for external works. This is consistent with LSH's own analysis of residential development schemes in North East England.

7.11 Contingencies

7.11.1 Typical allowances for contingencies are from 1% to 3% of build cost plus externals. The Skerningham allocation is a greenfield site where the risks of substantial unforeseen costs are modest and we have therefore applied a contingency of 2%.

7.12 Professional Fees

7.12.1 For estate housing the use of standard house types reduces design costs and thus the level of professional fees. The LPVA, citing an independent review of viability appraisals, adopts 6.5% of build costs for professional fees including NHBC warranty and EPC register costs. When expressed as a percentage of construction plus external costs, this level of professional fees equates to around 5.7%. Having regard to the scale of the Skerningham allocation and our earlier assumptions of the type and size of housing our appraisal allows for professional fees at 5% of the costs of construction. This accords with evidence from other housing schemes that we are appraising.

7.13 Abnormals

7.13.1 Our appraisal makes specific allowances for the provision of the primary access road, the bridge across the railway, a neighbourhood centre with a convenience store and health centre, a two-form entry primary school and open space. An allowance is made for other abnormal costs such as site clearance, remediation, ground works, upgrading foundations, archaeological investigations etc. We have allowed £75,000 per hectare of net developable area. The appraisal also allows £25,000 per gross hectare, for drainage and SUDS provision.

7.14 Infrastructure

7.14.1 The proposal is for the Skerningham Strategic Allocation to provide cells of residential development separated by open space. Whilst the development of infrastructure within each cell would be a normal cost of residential development, major infrastructure outside these cells which supporting the garden community as a whole have been considered separately. These are:

- **Primary access road.** Cost estimates prepared by Turner & Townsend are based on a road width of 7.5 metres with 1.2 metre wide pavements to either side, and a full length of some 4,585 metres. The cost is estimated to be around £18.11 million inclusive of contractor's preliminaries, but excluding land purchase, professional fees and taxes. The full road length is not required to serve the phases of development proposed for the plan period to 2036. Pod estimates that around 61.9% of the length is required and our appraisal includes an apportioned cost of £11.21 million. The appraisal assumes that 600 dwellings could be delivered before construction of the

road with these early phases taking access from Barmpton Lane and that completion of the road would coincide with completion of the crossing over the ECML railway (i.e. before occupation of 1,350th dwelling). The appraisal therefore assumes the construction of the road during Phase 2.

- **Bridge over mainline railway.** We understand that discussions with Network Rail are continuing but that a provisional cost of £20 million for the bridge and ransom access payment is proposed. The appraisal assumes that this cost would be incurred during Phase 2 and would coincide with the completion of the primary access route.
- **Primary School.** Cost estimates prepared by Turner & Townsend are based on a two-form entry primary school with nursery of 2,071 sq m. The estimated construction cost is based on £3,015 per sq m excluding land purchase, remediation, professional fees and taxes. Completion of the primary school would be required before occupation of the 450th dwelling and the appraisal assumes its construction over the course of 2028. The appraisal assumes that the provision of the primary school is in lieu of education contributions.
- **Health Centre.** Cost estimates prepared by Turner & Townsend are based on a facility of 500 sq m. The estimated construction cost is based on £4,976 per sq m excluding land purchase, professional fees and taxes. Completion of the health centre would be required before occupation of the 630th dwelling and the appraisal assumes its construction towards the end of Phase 1. The appraisal assumes that the provision of the health centre is in lieu of planning obligations and no revenue is included.
- **Convenience Store.** Cost estimates prepared by Turner & Townsend are based on a facility of 500 sq m built to shell. The estimated construction cost is based on £1,537 per sq m excluding land purchase, remediation, professional fees and taxes. Completion of the retail unit would be required before occupation of the 630th dwelling and the appraisal assumes its construction towards the end of Phase 1. The appraisal assumes the store would be let to a national retailer at an overall rent of £100 per sq m and the investment would sell off a 5% yield with normal fees and purchasers costs.
- **Open Space.** Our appraisal includes an allowance for open space provision that is separate from the allowance for externals, to acknowledge the additional cost of open space and green infrastructure required for a garden community. A cost of £3,000 per dwelling is included.
- **Relocation of Golf Course.** Skerningham Estates advise that the receipt from the sale of the site of Darlington Golf Course would be used to fund the relocation of the golf course and its long-term running costs. For the purposes of our financial viability assessment the golf course relocation is treated as cost neutral.

7.15 Marketing

7.15.1 The appraisal includes a 3% allowance for marketing and sales costs. This is typical for estate housing and includes the fitting out of show-homes and provision of a marketing suite on site.

7.16 Legal Costs

7.16.1 The appraisal allows £500 per unit for vendors legal costs on sale of the houses. This is at the lower end of the typical range for estate housing and reflects quantum.

7.17 Finance Costs

7.17.1 The appraisal uses a debit rate of 6% and a credit rate of 0.5%. The debit rate is inclusive of the bank's arrangement fee and associated legal, valuation and monitoring costs. These are consistent with interest rates in current market conditions.

7.18 Developer's Profit

7.18.1 Planning Practice Guidance suggests that 15%-20% of gross development value (GDV) should be considered a suitable return to a developer, which for a viable scheme equates to 20% - 25% of development costs. Where affordable housing is provided development risks are lower and a profit on cost of around 6% is regarded as appropriate. For the purposes of this appraisal we have used a "blended" profit on cost of 21.2% (equivalent to 25% of the cost of market housing and 6% of the cost of the affordable housing). This equates to a profit on value of 17.49%.

8.0 CONCLUSIONS

8.1 Results of Financial Viability Appraisal

8.1.1 On the assumptions set out above we have assessed the financial viability appraisal of constructing 1,650 homes and associated infrastructure within the plan period. A summary of this appraisal is at Appendix 2. In running this appraisal we have fixed the return to the developer to generate the residual land value, or return to the landowners, at the start of the scheme.

8.1.2 In accordance with Pod's Phasing Plan a gross site area of 85.13 hectares would be required to construct 1,650 units within the plan period. The residual land value of £18,780,229 therefore equates to **£220,606** per hectare (£89,278 per acre), which is 13.8 times higher than the existing use value of £16,000 per hectare. This uplift in value is within the broad parameters of 5 – 25 times EUV stated in the Council's LPVA.

8.1.3 It should be noted that the appraisal generates a single land value in Year 1; whereas, because of the scale of the proposed Skerningham Garden Community, the purchase of development sites is more likely to be phased over the development period. The effect of delaying some of the cost of site purchase, which is a real cost saving for the developer, would be to increase the overall return to the landowners.

8.2 Sensitivity Analyses

8.2.1 To understand the sensitivity of the scheme to changes in costs and values we have considered the impact of changes in the value of the houses and their costs of construction. The sensitivity analysis at Appendix 3 identifies that a modest increase in the value of the houses from £2,314 to £2,368 per sq m (from £215 to £220 per sq ft) would increase the RLV to £22,920,222 or **(£269,238** per hectares / £108,959 per acre) or 16 times EUV.

8.2.2 The scheme is also sensitive to changes in construction costs. A 5% reduction in the cost per sq m of the houses would increase the RLV to **£297,807** per hectare (£120,520 / acre), or 18 times EUV.

8.2.3 Our financial viability appraisal assumes that the construction rate will steadily increase to a maximum of 150 units per annum. As noted at 7.5 above, this rate is not ambitious; research by Lichfields of build out rates of major residential developments supports a higher build out rate of 180 units per annum. Over the plan period this higher build-out rate would provide 1,890 units on 98.36 hectares at Skerningham and the effect would be to increase the RLV to **£250,666** per hectare (£101,443 per acre) or 15 times EUV.

8.2.4 As noted in section 4.1, proposed revisions to NPPF could require councils who wish to plan for new settlements and major urban extensions to consider a longer time frame, of 30 years or more, to take into account the likely timescale for delivery. At Skerningham major infrastructure costs including the delivery of the primary access road and a bridge over the East Coast Mainline railway are required relatively early in the development period, and thus an assessment of viability over the longer term would improve the Year 1 Residual Land Value. Pod's phasing plan proposes that the development of the full scheme would result in 4,332 units on a gross site area of 234.15 hectares. Using the base assumptions of market value of £215 per sq ft and a maximum build-out rate of 150 houses per annum, the RLV would increase to **£270,028** per hectare (£109,278 per acre) or 16 times EUV.

8.2.5 As noted in section 6, The Skerningham Strategic Allocation is not owned by a single family, trust or institution, which has held the land over many generations and which therefore might require a significant uplift in the current use value to be persuaded to sell. The Skerningham Strategic Allocation is in various ownerships with the majority controlled by a developer, it is situated within a medium value area and requires substantial investment in infrastructure to bring it forward for housing development; moreover it would have a low net:gross ratio in keeping with its garden community status. In these circumstances a Benchmark Land Value of £250,000 to £300,000 per hectare (£100,000 - £120,000 per acre) which represents an uplift of 15 to 19 times the existing use value, provides a suitable level of return to the landowners.

8.2.6 In summary, the development of 1,650 homes over the plan period is viable. The scheme would deliver a blended profit on cost of 21.2% (17.49% profit value) to the developer and a substantial uplift from the existing use value for the landowners. Accelerated delivery or a modest increase in values would improve returns to the landowners, as would assessing the viability of the scheme over a longer time period.

APPENDIX 1

PHASING PLAN

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REV	BY	DATE	NOTE
A	MEC	31/04/21	DIAGRAM EXTENDED

2.44 ha
30 d/ha
73 dwellings

3.22 ha
30 d/ha
91 dwellings

1.13 ha
30 d/ha
34 dwellings

5.19 ha
30 d/ha
156 dwellings

2.42 ha
30 d/ha
73 dwellings

2.70 ha
30 d/ha
81 dwellings

4.32 ha
30 d/ha
130 dwellings

3.06 ha
30 d/ha
92 dwellings

12.05 ha
30 d/ha
362 dwellings

0.57 ha
30 d/ha
17 dwellings

Land reserved for
Primary and Secondary
Schools
6.19 ha

6.19 ha
35 d/ha
217 dwellings

4.78 ha
35 d/ha
167 dwellings

4.64 d/ha
35 d/ha
162 dwellings

1.16 ha
30 d/ha
35 dwellings

5.72 ha
35 d/ha
200 dwellings

3.11 ha
35 d/ha
109 dwellings

5.28 ha
35 d/ha
185 dwellings

1.33ha
35 d/ha
47 dwellings

5.94 ha
30 d/ha
178 dwellings

3.96 ha
30 d/ha
119 dwellings

6.90 ha
35 d/ha
242 dwellings

6.65 ha
35 d/ha
233 dwellings

Local Centre
2.47 ha
Primary School
60 Units

6.00 ha
35 d/ha
210 dwellings

1.1 ha
35 d/ha
39 dwellings

7.57 ha
35 d/ha
265 dwellings

5.47 ha
35 d/ha
191 dwellings

8.45 ha
35 d/ha
296 dwellings

1.50 ha
30 d/ha
44 dwellings

6.41 ha
35 d/ha
224 dwellings

Key

Delivery during the plan period

Delivery post plan period

N

1:5000
100m 0 100m 200m 350m 400m 500m

TYPPIT FACTORY | NEWCASTLE UPON TYNE | NE1 2EF | 0191 495 7700 | INFO@PODNEWCASTLE.CO.UK

PROJECT:
Skerningham

DRAWING TITLE:
Plan Period Plan

CLIENT:			STATUS:	
Theakston Estates			Information	
SCALE:	SHEET SIZE:	DATE:	DRAWN BY:	CHECKED BY:
1:5000	A0	04:21	MEC	MEC
PROJECT NO:	DRAWING NO:		REVISION:	
1231-THE	SK-10.03		A	

APPENDIX 2

APPRAISAL SUMMARY

APPRAISAL SUMMARY — LAMBERT SMITH HAMPTON

Skerningham Strategic Allocation
1650 units

Summary Appraisal for Merged Phases 1 2 3 4 5 6 7 8

Currency in £

REVENUE

Sales Valuation	**Units**	**m²**	**Rate m²**	**Unit Price**	**Gross Sales**
Ph 1a Market	24	2,280.00	2,314.00	219,830	5,275,920
Ph 1a Intermediate	3	240.00	1,735.50	138,840	416,520
Ph 1a Social Rent	3	240.00	1,157.00	92,560	277,680
Ph 1b Market	48	4,560.00	2,314.00	219,830	10,551,840
Ph 1b Intermediate	6	480.00	1,735.50	138,840	833,040
Ph 1b Social Rent	6	480.00	1,157.00	92,560	555,360
Ph 1c Market	72	6,840.00	2,314.00	219,830	15,827,760
Ph 1c Intermediate	9	720.00	1,735.50	138,840	1,249,560
Ph 1c Social Rent	9	720.00	1,157.00	92,560	833,040
Ph 1d Market	96	9,120.00	2,314.00	219,830	21,103,680
Ph 1d Intermediate	12	960.00	1,735.50	138,840	1,666,080
Ph 1d Social Rent	12	960.00	1,157.00	92,560	1,110,720
Ph 1e Market	281	26,695.00	2,314.00	219,830	61,772,230
Ph 1e Intermediate	35	2,800.00	1,735.50	138,840	4,859,400
Ph 1e Social Rent	35	2,800.00	1,157.00	92,560	3,239,600
Ph 2 Market	547	51,965.00	2,314.00	219,830	120,247,010
Ph 2 Intermediate	69	5,520.00	1,735.50	138,840	9,579,960
Ph 2 Social Remt	68	5,440.00	1,157.00	92,560	6,294,080
Ph 3 Market	244	23,180.00	2,314.00	219,830	53,638,520
Ph 3 Intermediate	30	2,400.00	1,735.50	138,840	4,165,200
Ph 3 Social Rent	31	2,480.00	1,157.00	92,560	2,869,360
Ph 4 Market	8	760.00	2,314.00	219,830	1,758,640
Ph 4 Intermediate	1	80.00	1,735.50	138,840	138,840
Ph 4 Social Rent	1	80.00	1,157.00	92,560	92,560
Totals	**1,650**	**151,800.00**			**328,356,600**

Rental Area Summary	**Units**	**m²**	**Rate m²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Supermarket	1	500.00	100.00	50,000	50,000	50,000
Totals	**1**	**500.00**			**50,000**	**50,000**

Investment Valuation

Supermarket					
Current Rent	50,000	YP @	5.0000%	20.0000	1,000,000
					1,000,000

APPRAISAL SUMMARY — LAMBERT SMITH HAMPTON

Skerningham Strategic Allocation
1650 units

GROSS DEVELOPMENT VALUE				**329,356,600**
Purchaser's Costs		5.75%	(54,374)	
				(54,374)
NET DEVELOPMENT VALUE				**329,302,226**
NET REALISATION				**329,302,226**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (85.13 Ha 220,606.48 pHect)			18,780,229	
				18,780,229
Stamp Duty			928,511	
Agent Fee		1.00%	187,802	
Legal Fee		0.80%	150,242	
				1,266,556
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Supermarket	500.00 m²	1,472.00 pm²	736,000	
Ph 1a Market	2,280.00 m²	994.00 pm²	2,266,320	
Ph 1a Intermediate	240.00 m²	994.00 pm²	238,560	
Ph 1a Social Rent	240.00 m²	994.00 pm²	238,560	
Ph 1b Market	4,560.00 m²	994.00 pm²	4,532,640	
Ph 1b Intermediate	480.00 m²	994.00 pm²	477,120	
Ph 1b Social Rent	480.00 m²	994.00 pm²	477,120	
Ph 1c Market	6,840.00 m²	994.00 pm²	6,798,960	
Ph 1c Intermediate	720.00 m²	994.00 pm²	715,680	
Ph 1c Social Rent	720.00 m²	994.00 pm²	715,680	
Ph 1d Market	9,120.00 m²	994.00 pm²	9,065,280	
Ph 1d Intermediate	960.00 m²	994.00 pm²	954,240	
Ph 1d Social Rent	960.00 m²	994.00 pm²	954,240	
Ph 1e Market	26,695.00 m²	994.00 pm²	26,534,830	
Ph 1e Intermediate	2,800.00 m²	994.00 pm²	2,783,200	
Ph 1e Social Rent	2,800.00 m²	994.00 pm²	2,783,200	
Primary School 2FE	2,071.00 m²	2,950.00 pm²	6,109,450	
Health Centre	500.00 m²	4,911.00 pm²	2,455,500	
Ph 2 Market	51,965.00 m²	994.00 pm²	51,653,210	
Ph 2 Intermediate	5,520.00 m²	994.00 pm²	5,486,880	
Ph 2 Social Remt	5,440.00 m²	994.00 pm²	5,407,360	

Skerningham Strategic Allocation
1650 units

Ph 3 Market	23,180.00 m²	994.00 pm²	23,040,920	
Ph 3 Intermediate	2,400.00 m²	994.00 pm²	2,385,600	
Ph 3 Social Rent	2,480.00 m²	994.00 pm²	2,465,120	
Ph 4 Market	760.00 m²	994.00 pm²	755,440	
Ph 4 Intermediate	80.00 m²	994.00 pm²	79,520	
Ph 4 Social Rent	80.00 m²	994.00 pm²	79,520	
Totals	**154,871.00 m²**		**160,190,150**	**160,190,150**
Contingency		2.00%	3,203,803	
Drainage / SUDS	85.13 ha	25,000.00 /ha	2,128,250	
Abnormals	50.14 ha	75,000.00 /ha	3,760,500	
Open space allowance	1,650.00 un	3,000.00 /un	4,950,000	
Primary access road			11,210,000	
Bridge over railway			20,000,000	
				45,252,553
Other Construction				
Ph 1a Externals		15.00%	411,516	
Ph 1b Externals		15.00%	823,032	
Ph 1c Externals		15.00%	1,234,548	
Ph 1d Externals		15.00%	1,646,064	
Ph 1e Externals		15.00%	4,815,185	
Ph 2 Externals		15.00%	9,382,117	
Ph 3 Externals		15.00%	4,183,746	
Ph 4 Externals		15.00%	137,172	
				22,633,380
PROFESSIONAL FEES				
Professional Fees		5.00%	8,190,273	
				8,190,273
MARKETING & LETTING				
Letting Agent Fee		10.00%	5,000	
Letting Legal Fee		5.00%	2,500	
				7,500
DISPOSAL FEES				
Sales Agent Fee		3.00%	9,879,067	
Sales Legal Fee	1,650.00 un	500.00 /un	825,000	
Sales Legal Supermarket		1.00%	10,000	
				10,714,067
FINANCE				
Debit Rate 6.000%, Credit Rate 0.500% (Nominal)				
Total Finance Cost				4,666,802

Skerningham Strategic Allocation
1650 units

TOTAL COSTS		**271,701,510**
PROFIT		**57,600,716**
Performance Measures		
Profit on Cost%	21.20%	
Profit on GDV%	17.49%	
Profit on NDV%	17.49%	
Development Yield% (on Rent)	0.02%	
Equivalent Yield% (Nominal)	5.00%	
Equivalent Yield% (True)	5.16%	
IRR	20.73%	
Rent Cover	N/A	
Profit Erosion (finance rate 6.000%)	3 yrs 3 mths	

APPENDIX 3

SENSITIVITY ANALYSIS

Skerningham Strategic Allocation
1650 units

Table of Land Cost and Profit on GDV%

	Sales: Rate pm²				
Construction: Rate pm²	-4.660%	-2.330%	0.000%	+2.330%	+4.660%
	2,206.17 pm²	2,260.08 pm²	2,314.00 pm²	2,367.92 pm²	2,421.83 pm²
-10.000% 894.60 pm²	-£23,673,354 17.489%	-£27,771,672 17.489%	-£31,840,880 17.489%	-£35,885,088 17.489%	-£39,907,912 17.489%
-5.000% 944.30 pm²	-£17,082,625 17.489%	-£21,233,477 17.489%	-£25,352,338 17.489%	-£29,439,961 17.489%	-£33,500,727 17.489%
0.000% 994.00 pm²	-£10,364,061 17.489%	-£14,609,090 17.489%	-£18,780,229 17.489%	-£22,920,222 17.489%	-£27,027,064 17.489%
+5.000% 1,043.70 pm²	-£3,270,499 17.489%	-£7,814,064 17.489%	-£12,108,173 17.489%	-£16,318,188 17.489%	-£20,475,224 17.489%
+10.000% 1,093.40 pm²	£5,272,178 17.489%	-£445,073 17.489%	-£5,150,659 17.489%	-£9,576,020 17.489%	-£13,837,305 17.489%

Sensitivity Analysis : Assumptions for Calculation

Sales: Rate pm²
Original Values are varied by Steps of 2.330%.

Heading	Phase	Rate	No. of Steps
Ph 1a Market	1	£2,314.00	2 Up & Down
Ph 1b Market	2	£2,314.00	2 Up & Down
Ph 1c Market	3	£2,314.00	2 Up & Down
Ph 1d Market	4	£2,314.00	2 Up & Down
Ph 1e Market	5	£2,314.00	2 Up & Down
Ph 2 Market	6	£2,314.00	2 Up & Down
Ph 3 Market	7	£2,314.00	2 Up & Down
Ph 4 Market	8	£2,314.00	2 Up & Down
Ph 1a Intermediate	1	£1,735.50	2 Up & Down
Ph 1a Social Rent	1	£1,157.00	2 Up & Down
Ph 1b Intermediate	2	£1,735.50	2 Up & Down
Ph 1b Social Rent	2	£1,157.00	2 Up & Down
Ph 1c Intermediate	3	£1,735.50	2 Up & Down
Ph 1c Social Rent	3	£1,157.00	2 Up & Down
Ph 1d Intermediate	4	£1,735.50	2 Up & Down
Ph 1d Social Rent	4	£1,157.00	2 Up & Down
Ph 1e Intermediate	5	£1,735.50	2 Up & Down
Ph 1e Social Rent	5	£1,157.00	2 Up & Down
Ph 2 Intermediate	6	£1,735.50	2 Up & Down
Ph 2 Social Rent	6	£1,157.00	2 Up & Down

Skerningham Strategic Allocation
1650 units

Ph 3 Intermediate	7	£1,735.50	2 Up & Down
Ph 3 Social Rent	7	£1,157.00	2 Up & Down
Ph 4 Intermediate	8	£1,735.50	2 Up & Down
Ph 4 Social Rent	8	£1,157.00	2 Up & Down

Construction: Rate pm²
Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Ph 1a Market	1	£994.00	2 Up & Down
Ph 1a Intermediate	1	£994.00	2 Up & Down
Ph 1a Social Rent	1	£994.00	2 Up & Down
Ph 1b Market	2	£994.00	2 Up & Down
Ph 1b Intermediate	2	£994.00	2 Up & Down
Ph 1b Social Rent	2	£994.00	2 Up & Down
Ph 1c Market	3	£994.00	2 Up & Down
Ph 1c Intermediate	3	£994.00	2 Up & Down
Ph 1c Social Rent	3	£994.00	2 Up & Down
Ph 1d Market	4	£994.00	2 Up & Down
Ph 1d Intermediate	4	£994.00	2 Up & Down
Ph 1d Social Rent	4	£994.00	2 Up & Down
Supermarket	5	£1,472.00	2 Up & Down
Ph 1e Market	5	£994.00	2 Up & Down
Ph 1e Intermediate	5	£994.00	2 Up & Down
Ph 1e Social Rent	5	£994.00	2 Up & Down
Primary School 2FE	5	£2,950.00	2 Up & Down
Health Centre	5	£4,911.00	2 Up & Down
Ph 2 Market	6	£994.00	2 Up & Down
Ph 2 Intermediate	6	£994.00	2 Up & Down
Ph 2 Social Remt	6	£994.00	2 Up & Down
Ph 3 Market	7	£994.00	2 Up & Down
Ph 3 Intermediate	7	£994.00	2 Up & Down
Ph 3 Social Rent	7	£994.00	2 Up & Down
Ph 4 Market	8	£994.00	2 Up & Down
Ph 4 Intermediate	8	£994.00	2 Up & Down
Ph 4 Social Rent	8	£994.00	2 Up & Down