



**Luton Borough Council
Local Plan Viability Assessment
Executive Summary**

November 2013



Nationwide CIL Service

Executive Summary

1.1 The report will provide an appraisal of the viability of the Luton Borough Local Plan in terms of the impact of its policies on the economic viability of development proposed to be delivered by the Plan. The study will consider policies that might affect the cost and value of development (Affordable Housing, Design and Construction Standards) as well as site specific cost constraints identified in the allocations process (eg contamination, access issues, flood defence etc). The study also considers delivery over a 15 year plan period.

Study Area

1.2 The study area covers the whole of the administrative area of Luton Borough Council. The assessment first considers the existence of economic sub-market areas for residential and commercial development within the study area which may also form the basis for the Authority's CIL Charging Zones in the event that Luton pursues the adoption of CIL.

Study Methodology

1.3 There are a number of key stages to Viability Assessment which may be set out as follows.

1) Evidence Base – Land & Property Valuation Study

1.4 Establish an area wide evidence base of land and property values for development in each sub-market area. The evidence base relies on the area wide valuation study undertaken by Heb Surveyors in 2013.

2) Evidence Base – Construction Cost Study

1.5 Establish an area wide evidence base of construction costs for each category of development relevant to the local area. The study will also indicate construction rates for professional fees, warranties, statutory fees and construction contingencies. The evidence base relies on the Construction Cost Study by Gleeds undertaken in 2013. In addition specific advice on reasonable allowances for abnormal site constraints was obtained from Gleeds and is outlined in the report.

3) Delivery Timescale

1.6 The study factors in projections for changes to property costs and values for the 0-5, 6-10 and 11-15 year delivery periods within the overall delivery timescale of the Development Plan.

Executive Summary

4) Viability Appraisal

1.7 Appraisal of every allocated site taking account of site area, unit numbers, brownfield or greenfield status, site specific abnormal constraints, policy requirements and affordable housing targets. The appraisal uses a Residual Appraisal Model to determine whether any margin exists beyond a reasonable developer's return.

1.8 The NCS model is based on standard development appraisal methodology, comparing development value to development cost. The model factors in a reasonable return for the landowner with the established threshold value, a reasonable profit return to the developer and the assessed cost impacts of proposed planning policies to determine if there is a positive or negative residual output. Provided the margin is positive (ie Zero or above) then the development being assessed is deemed viable. The principles of the model are illustrated below.

Development Value (Based on Floor Area) Eg 10 x 100sqm 3 Bed Houses x £2,200per sqm	£2,200,000
Development Costs	
Land Value	£400,000
Construction Costs	£870,000
Abnormal Construction Costs (Optional)	£100,000
Professional Fees (% Costs)	£90,000
Legal Fees (% Value)	£30,000
Statutory Fees (% Costs)	£30,000
Sales & Marketing Fees (% Value)	£40,000
Contingencies (% Costs)	£50,000
Section 106 Contributions/Policy Impact Cost Assumptions	£90,000
Finance Costs (% Costs)	£100,000
Developers Profit (% Return on GDV)	£350,000
Total Costs	£2,175,000
Output	
Viability Margin	£50,000
Potential CIL Rate (CIL Appraisal only)	£25 sqm

Executive Summary

5) Study Assumptions

1.9 The study has undertaken Viability Appraisals of all sites being promoted by the Luton Local Plan. For the purpose of the individual site assessments, Luton has been divided into a series of Character Areas. A particular mix of housing types has been used in the viability testing to reflect the type of residential development likely to emerge over the plan period. The Character Areas, house types and mix may be summarised As follows :-

Character Area	House Type	Size (sqm)	Density (per Ha)	Housing Mix
Victorian Terraced Area	Studio Apt	50	150	10%
	2 Bed Apt	60	120	10%
	2 Bed Terrace	70	55	45%
	3 Bed Detached	88	35	35%
			Av Density 64	
Post War	Studio Apt	50	150	5%
	2 Bed Apt	60	120	10%
	2 Bed Terrace	70	55	45%
	3 Bed Detached	88	35	35%
	Bungalow	100	30	5%
			Av Density 58	
Contemporary Devt	2 Bed Terrace	70	55	30%
	3 Bed Semi	80	45	30%
	3 Bed Detached	88	35	35%
	Bungalow	100	30	5%
			Av Density 44	
Pre War/Inter War	2 Bed Apt	60	120	10%
	2 Bed Terrace	70	55	25%
	3 Bed Semi	80	45	35%
	4 Bed Detached	120	25	25%
	Bungalow	100	30	5%
			Av Density 48	
Town Centre Mixed Use Fabric	Studio Apt	50	150	40%
	2 Bed Apt	60	120	40%
	3 Bed Semi	80	45	20%
			Av Density 117	
Industrial	2 Bed Terrace	70	55	60%
	3 Bed Terrace	75	45	40%
			Av Density 51	

Executive Summary

1.10 The study assumed 20% Affordable Housing delivery. The tenure mix between Intermediate, Social Rent and Affordable Rent housing types and the relevant transfer values in terms of % of open market value are set out below.

Affordable Housing				
	Proportion %	Tenure Mix %		
		Intermediate	Social Rent	Affordable Rent
Districtwide	30%	0%	20%	80%
Transfer Values			40%	50%

1.11 The study assumed that no residential CIL charges would be made but has allowed for ongoing planning obligation contributions.

1.12 The commercial element of the strategic site appraisals included B1/B2/B8 development retail, leisure, care facilities and hotels based on development projection information provided by Luton. The appraisals assume development floorspace: land ratios in line with the assumptions outlined in section 4.14. More detailed information is available in the Strategic appraisals section.

1.13 Both the Residential and Commercial appraisals factored in site specific abnormal costs and mitigation factors as set out in the tables below. These costs were adjusted for the 6-10 and 11-15 year delivery periods in the residential assessment.

Residential Abnormal Costs							
Archlogy (Ha)	Flood (Ha)	Access (Ha)	Contam (Ha)	Sec 106 (unit)	Ground Stability (Ha)	Utilities Upgrade (Ha)	Ecology (Ha)
10000	25000	20000	25000	2200	20000	80000	20000

Commercial Abnormal Costs							
Archlogy (Ha)	Flood (Ha)	Access (Ha)	Contam (Ha)	Sec 106 (Ha)	Ground Stability (Ha)	Utilities Upgrade (Ha)	Ecology (Ha)
10000	25000	20000	25000	10000	20000	80000	20000

Executive Summary

Strategic Site Appraisals

1.14 The following strategic sites were assessed as part of the study. Some of the sites contained uses that were difficult to place accurate costs or values against (eg football stadium, park and ride) and these elements were not included in the assessment. Assumptions were made on net developable areas to inform land values and abnormal cost allowances, based on the proposed development floorspace.

1 Power Court	7.23 Ha Net	12374sqm B1/B2/B8 3700sqm General Retail 600 Residential Units
	Abnormals	Archaeology Flood Relief Site Access River Lea Enhancement (from Residential S106)
2. Napier Park	11.8 Ha Net	16500sqm B1/B2/B8 39000sqm Office 13354sqm Food and General Retail 12400sqm Hotel 500sqm Community 2500sqm Leisure 625 Residential Units
	Abnormals	Site Access £1.7 Million
3. Butterfield Green	20 Ha Net	100,000sqm B1/B2
4. Junc 10a Bidwells Employment	25 Ha Net	125,000sqm B1/B2/B8 Park and Ride Car Park (not assessed)
	Abnormals	Junc 10a Improvement £2 Million (assume alt funding) Sub station Improvement £400,000
5. Junc 10a Bidwells Mixed Use	19.3 Ha Net	93,500sqm B1/B2/B8 1500sqm General Retail Football Stadium (not assessed) Park and Ride Car Park (not assessed)
	Abnormals	Junc 10a Improvement £2Million (assume alt funding) Sub station Improvement £400,000

Executive Summary

6. Station Quarter	4Ha Net	13800 B1/B2/B8 1990sqm General Retail 3000sqm Hotel 375 Residential Units
	Abnormals	Archaeology Site Access
7. Century Park	30 Ha Net	111480sqm B1/B2/B8 10446sqm Food and General Retail 18573sqm Hotel 1161sqm Leisure
	Abnormals	New sub station £5 Million

Site Allocations Study Conclusions - Residential

1.15 The viability study firstly concluded that the variations in the values of residential development were not significant enough to warrant differential assumptions being applied to different geographical locations in the study area and that a single value zone approach was appropriate to the viability testing (and to any CIL system that might subsequently emerge). The valuation study concluded that any variations in the value of commercial locations in Luton are not significant enough to warrant a differential sub-market approach to commercial viability appraisal. Unsurprisingly, enhanced commercial values and viability were encountered around Luton Airport but not to the extent that a differential commercial zone approach was considered to be warranted

1.16 The viability testing of proposed residential sites in Luton has been undertaken, accounting for the following policy impacts and key assumptions :-

- Greenfield or Brownfield Development
- Delivery Timescale (with cost and value assumptions adjusted accordingly)
- Affordable Housing Delivery of 20%
- Key Planning Policy Cost Impacts (Renewable Energy, CoSH etc)
- Residual Planning Obligation Allowances
- Site Specific Abnormal Costs and Mitigation Factors

1.17 The study illustrates that if all of the land value allowances are adjusted to take account of abnormal costs and site specific mitigation factors then practically all of the sites are viable in the 0-5 year delivery period.

Executive Summary

1.18 Viability improves in the medium term (6-10 year period) with all sites demonstrating viability. In the longer term (11-15 year period) all sites demonstrate viability having taken account of affordable housing delivery and the policy cost impacts of the Development plan.

1.19 It should also be recognised that the assessment necessarily relies on fixed assumptions and generic application of allowances for standard and abnormal construction costs. There will be significant variations dependent on specification, construction methods and associated build cost and indeed sales rates which will make some types of development more or less viable and individual assessments may still be necessary at planning application stage where variations to policy requirements are sought.

1.20 In conclusion, the assessment of all proposed residential sites in Luton has been undertaken with due regard to the requirements of the NPPF and the best practice advice contained in 'Viability Testing Local Plans'. It is considered that all greenfield sites are viable across the entire plan period. The delivery of some brownfield sites may require landowners to be realistic about value reductions to take account of abnormal development costs and the Council may need to reduce affordable housing aspirations on a small number of sites to encourage development in the short term. As such the overall residential delivery strategy of the Plan is considered sound.

Strategic Sites Study Conclusions

1.21 The viability testing of the proposed strategic sites in Luton including residential and employment uses has been undertaken, accounting for the following policy impacts and key assumptions :-

- Greenfield or Brownfield Development
- Delivery Timescale (with cost and value assumptions adjusted accordingly)
- Affordable Housing Delivery of 20%
- Key Planning Policy Cost Impacts (Renewable Energy, CoSH, etc)
- Residual Planning Obligation Allowances
- Site Specific Abnormal Costs and Mitigation Factors

1.22 Based on the study assumptions in relation to some employment sites being driven by owner occupiers rather than speculative developers, 6 of the 7 proposed strategic sites are considered viable and deliverable over the plan period.

1.23 Power Court indicates marginal negative viability based on the parameters of the testing. However if the abnormal costs (which include very substantial adjustable S106 allowances) are deducted from the land value allowance the negative viability would become marginal in the context of a £100 Million scheme and Power Court is therefore considered to be deliverable. In conclusion the delivery strategy concerning the proposed strategic sites is considered sound.