



Northallerton Northern Area Masterplan

Hambleton District Council

Viability & Financial Appraisal Report

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May 2007

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1. **INTRODUCTION**

- 1.1 I have been instructed by Hambleton District Council ('the Council') to advise on the viability of a site development possibility in Northallerton as part of the Council's research into where identified future development needs might best be located.
- 1.2 This report is intended to assist the Council in choosing Preferred Options for future development in the Northallerton area as part of the Council's Local Development Framework (LDF)
- 1.3 This *preliminary advice* is based on current market demand and sales values & development costings gained from my 33 years experience of the Housebuilding Industry. It is an initial viability & financial appraisal and not a formal valuation. The figures presented are preliminary and approximate assessments intended to provide an overview of the Northallerton Northern Area Masterplan proposal. As such, the contents of this Report are to be regarded as informal advice but sufficient to determine whether the proposal is a viable option.
- 1.4 It must be noted that this report has been produced on the basis of information provided by the Council and that I have not sought to check that such information is correct or otherwise. The information contained herein as to Sales Values & Development Costings is approximate as at April 2007 but will become less accurate as time goes by.

2. **BACKGROUND TO THE REPORT**

- 2.1 One option the Council is considering is a link road between Darlington Road (A167) and Stokesley Road (A684) at the northern end of Northallerton. The proposed link road is not currently in the Highway Authority's Transport Plan but the Highway Authority (North Yorkshire County Council) and the Council have decided on a joint study of the link road proposal to assess its benefits in alleviating traffic congestion in Northallerton and at the same time releasing land for new development to assist the funding of the link road.
- 2.2 A Conceptual Masterplan has been prepared and shows potential new development sites on land to the south of the proposed Link Road. This Report relates to information shown on the Conceptual Masterplan and in the Core Strategy on housing numbers given to me upon being instructed by the Council.
- 2.3 The Council has asked me to look into the viability of the potential new development shown upon the Conceptual Masterplan having regard to current planning policies and / or those, which may be included in the Council's LDF and having particular regard to the need to obtain funding for the Link Road primarily from contributions from the new development to the south of the link road under Section 106 of the Town & Country Planning Act.
- 2.4 I am informed by the Council that North Yorkshire County Council have suggested that the Link Road would cost about £10M to construct.

3. **EMERGING LOCAL DEVELOPMENT FRAMEWORK**

- 3.1 The Council is currently preparing its LDF in accordance with the approved Local Development Scheme (LDS) and the LDS gives a timetable for preparation of the portfolio Local Development Documents (LDDs) which the Council intend to produce and which will eventually comprise its LDF.
- 3.2 A Core Strategy was adopted in April 2007 and identifies the scale and general distribution of housing & employment development that the Council expects throughout the District in the 2004 to 2021 period.
- 3.3 Based on Yorkshire and Humberside Draft Regional Spatial Strategy (RSS), the Core Strategy envisages 4350 new homes and 75 hectares of employment land in the Hambleton District between 2004 & 2021 and identifies Northallerton as a principal 'Service Centre' which will be at the forefront of new development provision, and the provision of Services for the whole District.
- 3.4 The Core Strategy envisages the allocation to the Northallerton area of 1450 new homes and 7.95ha of new employment land.
- 3.5 Allied to the Core Strategy, the Council has begun consultation on possible Site Allocations for the District including within Northallerton where 95 Sites were identified, 74 of which for potential residential development. These include a range of sites at the northern end of Northallerton that have been assembled into a comprehensive development option.
- 3.6 For viability & financial appraisal purposes, the 1450 new homes for Northallerton town itself has been reduced to 1250 to allow for nearby village allocations referred to in Core Strategy CP4 an assumption that is purely for illustrative purposes.

4. **CONCEPTUAL MASTERPLAN**

- 4.1 The Conceptual Masterplan details the type, scale and distribution of new development uses that are envisaged for the area between the northern edge of the existing urban area and the link road.
- 4.2 The Masterplan indicates 19.7ha *or* 48.7 acres of Residential Development and that such would yield between 700-800 new homes.
- 4.3 My discussions with the Council revealed that they would be comfortable, for the purposes of this report, with an average Density of 40 homes per hectare which equates to 16.24 homes per acre and which upon 48.7 acres would produce 791 new homes in total. Please refer however to Section 5.4 of this report that describes the 'Coverage' or Densities achieved by residential developers in the recent past.

5. FORM OF RESIDENTIAL DEVELOPMENT & 'COVERAGE'

5.1 A Density of 16.24 dwellings per acre should allow development to take place without detrimental effect to the countryside to the north and could, by way of example, consist of the following mix and sizes of dwellings: -

3.25 (20%) of 2 Bed Houses of 750 Sq.ft (2 Storey) (2438 Sq.ft)
8.17 (50%) of 3 Bed Houses of 1100 Sq.ft (2 Storey) (8897 Sq.ft) = 17691 Sq.ft per acre
4.82 (30%) of 4 Bed Houses of 1300 Sq.ft (2 Storey) (6266 Sq.ft)

5.2 The above is a theoretical example of course as in some parts of the Masterplan Area, 3 storey houses that have become popular with developers and purchasers alike could be appropriate. In addition although a good number of apartments have already been built in the Northallerton Area, some further development for flats (carefully designed and distributed to reflect the countryside to the north of the link road) would (*or, may*) be put forward by developers and be in demand because of demographic trends and modern day lifestyles.

5.3 Based on the 16.24 dwellings per acre and theoretical mix given in 5.1 above, a coverage of 17,691 Sq.ft per acre can be calculated as shown within **5.1** above.

5.4 With PPG3, developers, especially the prominent national companies, have been able to achieve as much as 22,000 Sq.ft per acre and I would certainly expect lobbying from developers for say 20,000 Sq.ft on at least some parts of the Conceptual Masterplan area.


5.5 Coverage and sales values and development costs per Sq.ft are crucial to the viability of the Masterplan Proposal as will be seen later in this report.

5.6 The Dwelling Mix and Densities, which the council will have much influence on will determine COVERAGE and in turn, COVERAGE will determine how much the Residential Zones of the Conceptual Masterplan area (and new homes elsewhere in Northallerton) can contribute to funding the link road.

6. EMPLOYMENT LAND

6.1 What contribution would the 4.3ha or 10.6 acres of employment land (some of which is expected to be for good quality office development) shown on the Conceptual Masterplan make to the link road or for that matter the 9.00 acres of B1 / B2 envisaged elsewhere in Northallerton? This is 19.6 acres and for the purposes of this Report, I have assumed that Employment Land might be able to provide £196,000 towards the Link Road. (£10,000 per acre)

7. RESIDENTIAL SALES VALUES (REVENUE)

- 7.1 The establishing of likely TOTAL SALES REVENUE is fundamental to assessing the viability of a residential development project and again, achievable densities or COVERAGE play a significant part in this.
- 7.2 After total sales revenue has been estimated (and the size of the Development 'cake'  established), the elements or components that the development needs to pay for or which in this case are to be part or fully funded by the development can be put into context.
- 7.3 A figure of £190 per Sq.ft for private housing is hereby employed for selling prices (incidentally, Newbuild Apartments have been selling in Northallerton for between £200 & £225 per Sq.ft.) and this produces the following per acre based on 40 dwellings per hectare or 16.24 per acre based on the Mix/Dwelling Sizes given in **5.1** and summarised in **5.3** :-
- 17691 Sq.ft @ £190 = £3,361,290 per acre
- 7.4 The Sales Revenue from all 48.7 acres on the Conceptual Masterplan would be £163.69M
- 7.5 The average Selling Price of a new home in the Masterplan Area would be £206,976 based on the dwelling sizes and mix of dwellings given in **5.1**
- 7.6 The figures in **7.3**, **7.4** & **7.5** assume entirely private housing and no affordable housing.
- 7.7 If 791 new homes were released at Northern Northallerton, with reference to **3.6**, this would leave 459 for elsewhere in Northallerton which at an average Private Housing Price of £206,976 would yield £115.70M
- 7.8 Set against £280M of (albeit entirely Private) Housing Revenue, £10M for the Link Road does not seem an unrealistic funding request.
- 7.9 However, the inclusion of affordable housing has the effect of lowering Total Sales Revenue as such affordable housing is only likely to be worth £125 per Sq.ft to developers (as opposed to £190)
- 7.10 Accordingly, at 16.24 dwellings per acre and assuming an affordable requirement of 20% we have 3.25 affordable dwellings per acre, which I have assumed would be 2 & 3 Bed Houses of 2 & 1.25 per acre respectively. This would reduce revenue per acre by £186,875 and for all 48.7 acres the reduction would total £9.10M
- 7.11 An Affordable requirement of 30% would be 4.87 dwellings per acre and I have assumed 3 of these to be 2 Beds and 1.87 to be 3 Beds. That would reduce revenue per acre by £279,955 and for all 48.7 acres the reduction would total £13.63M
- 7.12 The headline Total Sales Revenue of £163.69M for the Masterplan Residential Areas would be reduced to £154.59M and £150.06M respectively if 20% & 30% Affordable Housing had to be accommodated.
- 7.13 The likely Total Sales Revenue from entirely private Housing of 1350 dwellings throughout Northallerton of £280M would reduce to approximately £264.43M and £256.69M respectively if 20% & 30% Affordable requirements were imposed.
- 7.14 At 20,000 Sq.ft coverage per acre, 48.7 acres of entirely private housing would give £185.06 Total Revenue.

- 7.15 At 20,000 Sq.ft coverage per acre, 20% & 30% Affordable requirement Revenue reductions would be approximately £10.29M & £15.41M respectively.
- 7.16 Considering the £10M estimated Link Road Cost in the light of the very big total revenue figures above, the £10M funding begins to look quite attainable especially when compared with the development costs set down in section 10 of this report.

8. **RESIDENTIAL BUILDING LAND**

- 8.1 The improved accessibility provided by the Link Road would enhance the desirability of the Northern Northallerton Development.
- 8.2 The 'headline' gross value per acre of residential development land in Northallerton is probably of the order of £1.25M per acre but this is before deductions for abnormal costs and such abnormals include Section 106 Planning Gain items. Nowadays such abnormals/Planning Gain is the norm and the 'headline' land value is a starting point for negotiations and there are always deductions.
- 8.3 Depending upon site requirements and competition levels, land can typically be between 23% & 30% of TOTAL REVENUE and by way of example, 25% of the figure of £3,361,290 given in 7.3 is £840,300 per acre. At 20,000 Sq.ft per acre Land would be £950,000 per acre. 30% of £3,361,290 is £1,008,387 per acre for Land and at 20,000 Sq.ft Coverage per acre, 30% for Land would be £1,140,000
- 8.4 To realise a Gross Land Value of £1.25M per acre, that would be 37.19% of the 16.24 per acre selling value of £3.36M, and £1.25M per acre for land enjoying entirely Private Housing at 20,000 Sq.ft Coverage would still be 32.89%
- 8.5 To put what is to be found later in this report into context therefore, it could be argued that the £1.25M per acre Land 'price tag' is unrealistic and £1.15M could be more accurate.
- 8.6 Competition for land however can be fierce and landowners and their agents will have a lot to say. Equally a consortium of prominent national or regional developers would strive very hard to secure 48.7 acres in Northallerton so as to control the market, and economies of scale would be enjoyed (bulk buying over a lengthy period)
- 8.7 The owners of the sport / recreation land (19.3 acres) will expect an equalisation of land Payments with the 48.7 acres as such sport / recreation use is required to bring the whole Conceptual Plan forward.
- 8.8 Accordingly, the residential and s/r land totals 68 acres or 27.5ha but sales revenue will only be attainable from 48.7 acres. On a residual land value basis or Development 'cake' theme, it follows that the net price per acre for land will tumble further down from the 'Headline' or Gross Value.

9. PROFITABILITY

- 9.1 Developers would probably look to achieve a 20% (of total sales revenue) OFF-SITE MARGIN (i.e. before head office overheads which obviously vary from company to company) bearing in mind the competition for land these days.
- 9.2 In a slightly less competitive situation, 22% and even 25% could be possible by way of entering into option agreements for 'Strategic Land' (some of the sites being promoted in Northallerton for LDF purposes perhaps)
- 9.3 The hoped for OFF-SITE MARGIN (OSM) is part of the Development 'cake', and employing known costs from other developments enables a Residual Land Value to be calculated.
- 9.4 By way of examples a 20% OSM from £3.36M Sales Revenue per acre is £672,239 and 25% of the same total as land (see **8.3**) is £840,300. Similarly, 20% of a 20,000 Sq.ft per acre covered site yielding £3.8M of Sales Revenue gives an OSM of £760,000 against a 'Gross' 25% Land Value of £950,000
- 9.5 I give the examples in **9.4** as in the past, developers used to look for the OSM to be equal to what was paid for the land but Return on Capital Employed is now the yardstick used and the above margin to Land Cost ratios (**9.4**) represent reasonable returns in today's market.
- 9.6 The developer's return will drop from the *say* 20% OSM after allowance for other costs such as interest charges & professional fees that different developers Account for in different ways and such 'Head Office & other Overheads' can reduce the Return to *say* 15%
- 9.7 Although not typical, in financial year 2006, Persimmon* made a Pre-Tax Profit (i.e. after Overheads) of £582M from Revenue of £3.14 *billion*, which is 18.54%. Not all developers are as well managed or have such a spread of developments and it must be pointed out that the completions achieved will have been against historic land costs so that 18.54% is not the norm, merely an indication.
*Note ~ these details published in National Newspapers.
- 9.8 Returns from individual developments vary considerably based on local market conditions and local labour & materials costs but Northallerton has traditionally been a sought out location for local & regional builders because of a consistently steady local economy and thus market, and trading margins from Sites in Northallerton have usually compared very favourably with the rest of the Yorkshire Region and not just North Yorkshire. The Northallerton market often holds up when market conditions more generally become difficult.
- 9.9 As already mentioned, 'Northern Northallerton' would give economies of scale benefits regardless of which planning gain elements are settled on and would be a consortium development of at least two if not three or four developers. Smaller parcels of land might be sold on to smaller local developers (giving diversification of styles) and such land sales would normally bring a land profit to the larger builder as a matter of interest as well as 'spreading' outlay and work in progress costs.

10. DEVELOPMENT COSTS

- 10.1 If the £10M estimated Link Road cost was to be borne by only the 791 new homes in the Masterplan Area mentioned in **4.3**, the contribution from each dwelling would have to be £12,642
- 10.2 If all 1250 'Northallerton' dwellings referred to in **3.6** were to contribute, the £10M Link Road would require a contribution of £8000 per dwelling.
- 10.3 Assuming the £196,000 contribution from employment land throughout Northallerton mentioned in **6.1**, the contribution for each of 1250 dwellings in Northallerton would reduce to £7843 which is 3.79% of the average new home selling price in the Masterplan Area stated in **7.5**
- 10.4 In addition to expressing the cost of a particular development requirement on a 'per dwelling' basis, the housebuilding industry and those associated with it (landowners' agents) often quote the cost per acre in order to see the effect upon land values. At 16.24 dwellings per acre and at £7843 per dwelling for the Link Road (**10.3**), the cost per acre for each of the 48.7 developable residential acres in the Masterplan area is £127,370
- 10.5 For the purposes of having the figure to hand, the cost for each of the 68 sport & recreation and residential acres in the Masterplan area is £91,220 (48.7 acres @ 16.24 x £7843 ÷ 68)
- 10.6 To put the average potential Link Road Costs per dwelling and per acre mentioned above into context, a typical large development incurs approx. £450,000 per acre for infrastructure or external works components (everything on or off-site which is outside plot boundaries) and which at 16.24 dwellings per acre would be £27,709 per dwelling.
- 10.7 Plot Development (house foundation, in-plot drainage & so on) usually costs around £12.50 per Sq.ft, which converts to £9,375, £13,750 and £16,250, each respectively for the 2,3 and 4 Bed houses described in **5.1**
- 10.8 With ever increasing Health & Safety requirements and modern building techniques, Site Overheads (the day to day Supervision & Control of a development) can amount to £6000 - £6500 per week, which, depending on the construction period involved, can equate to about £9 per Sq.ft of House Style (i.e. £9,900 for a 1100 Sq.ft 3 Bed)
- 10.9 The likely Infrastructure Cost (normally) for 48.7 acres would be £21.92M
- 10.10 Assuming there are no abnormals (affordable housing or other Section 106 requirements or such as remediation or specialist foundations) a figure of approx. £90 per Sq.ft. (which would include for professional services & interest) is a guide for total construction costs per dwelling and thus, per acre.
- 10.11 Using the 16.24 'Mix', 17691 Sq.ft @ £90 is £1,592,100 per acre.
- 10.12 The difference between the Selling Price of £190 per Sq.ft given in **7.3** and the £90 per Sq.ft in **10.11** must accommodate Abnormals (a Link Road contribution and *or* affordable housing *or* anything else), the Land Price and the developers' Off-Site Margin.

11. **SPORT / RECREATION LAND**

- 11.1 For the purposes of this viability exercise, it is assumed that the 19.3 acres of S/R Land have a '*Net Nil*' effect upon sales revenue (other than making the 791 dwellings on the Masterplan Area arguably more appealing & saleable which is difficult to quantify) and upon development costs.
- 11.2 It is assumed that the cost of servicing the 19.3 acres and the establishment of the specific and varying facilities will be covered by grant funding and by Sports Clubs or Associations re-locating (i.e. Land Sale proceeds elsewhere)
- 11.3 As already stated in **8.7** however, the S/R Land owners will expect an equalisation of land payments with the 48.7 of developable residential acres.

12. PLANNING GAIN SCENARIOS

12.1 Without any Planning Gain or Abnormals, the 'theoretical' position would be: -

REVENUE (at 16.24 dwellings or 17691 Sq.ft per acre)		£3,361,290
LESS a) Construction Costs	£1,592,100	
b) 20% Off-Site Margin	£672,239	<u>£2,264,339</u>
<u>Residual Land Value</u>		£1,096,951

(Note at 20,00 Sq.ft per acre, Revenue would be £3,800,000; Construction Costs £1,800,000; 20% OSM £760,000 and Residual Land Value £1,240,000 per acre)

12.2 The Residual Land Value in **12.1** for each of the 68 S/R & Residential acres would be £785,646

12.3 Including for the Link Road at a cost per dwelling of £7843 (**10.3**) but for no other Planning Gain or Abnormals adjusts the Viability as follows: -

REVENUE		£3,361,290
LESS a) Construction Costs	£1,592,100	
b) 20% OSM	£672,239	
c) Link Road	£127,370	<u>£2,391,709</u>
<u>Residual Land Value</u>		£969,581

12.4 The Residual Land Value in 12.3 for each of the 68 S/R & Residential acres would be £694,390

12.5 AFFORDABLE HOUSING

a) Assuming a 20% requirement and the Link Road contribution of 7843 per dwelling (or £127,370 per acre), the position would be: -

REVENUE	£3,361,290	Less	£186,875 (See 7.10)	=	£3,174,415
LESS a) Construction Costs	£1,592,100				
b) 20% OSM	£634,883				
c) Link Road	£127,370				<u>£2,354,353</u>
<u>Residual Land Value</u>					£820,062*

(Note* For each of the 68 S/R & Residential Acres would be £587,709)

b) Assuming a 30% requirement and the Link road, the position would be: -

REVENUE	£3,361,290	Less	£279,955 (See 7.11)	=	£3,081,335
LESS a) Construction Costs	£1,592,100				
b) 20% OSM	£616,267				
c) Link Road	£127,370				<u>£2,335,737</u>
<u>Residual Land Value</u>					£745,598 **

(Note** For each of the 68 S/R & Residential acres would be £533,980)

12.6 Planning Gain – other (Education)

Again, as a comparison, at 16.24 dwellings per acre, the 48.7 acres or 791 dwellings with every fourth dwelling contributing £5,000 to Education (one primary School place for every fourth dwelling) £988,750 would arise which equates to £20,303 for each of 48.7 acres.

13. CONCLUSIONS and RECOMMENDATIONS

- 13.1 The Northern Northallerton Masterplan concept and the funding of its key element, the Link Road by new homes and new employment land in Northallerton itself is certainly a viable proposition.
- 13.2 Contributions to the £10M estimated Link Road Cost should come from all 1250 new homes for Northallerton itself mentioned in **3.6** and should also be sought from all employment land, which would be developed in the Plan Period.
- 13.3 Bearing in mind that the Conceptual Masterplan proposal would almost certainly necessitate a land value equalisation agreement and that for the concept to go ahead, a spirit of cooperation would be required between all landowners and developers, I conclude that the conceptual masterplan allocations are capable of funding the Link Road in the manner and to the extent set down earlier in this report but that it is unlikely that the Planning Authority will accept that no other Planning Gain would be forthcoming.
- 13.4 An Affordable Housing requirement would be justifiable but from the estimated revenue & costings I have employed and having regard to the need to achieve an equitable arrangement for all parties, I feel that 20% Affordable Housing is the maximum that could be pushed for in addition to Link Road funding.
- 13.5 It has to assumed that the 459 new dwellings for elsewhere in Northallerton mentioned in **7.7** and the land upon which they would be built would be subject to the same affordable housing or other planning gain restraints as the 791 Northern Northallerton new dwellings. However, the 459 new dwellings would probably be from individually owned or non-composite development sites that would be much less likely to require a land equalisation agreement. Conversely though, such non-composite sites (and for that matter parcels of land within the Northern Northallerton Masterplan area) could have site-specific development abnormalities costs to be borne such as extensive site clearance (demolitions, contamination and so on).
- 13.6 If a contribution to the funding of the Link Road was to be forthcoming from North Yorkshire County Council or Yorkshire Forward to promote the re-generation of Northern Northallerton, either the Masterplan Concept would be more viable or an enhancement of the Planning Gain described in **13.4** would be possible. Specifically, the Core Strategy of the LDF attaches great importance to achieving adequate affordable housing but housebuilders and landowners will resist above 20% if NYCC or other bodies do not pay something towards the Link Road.