



# ISLAND PLAN

BACKGROUND DOCUMENT



**Indicative Economic Viability  
Assessment of Potential Development  
Sites Identified in the Strategic  
Housing Land Availability Assessment**  
*April 2011*

# Executive Summary

This document sets out the methodology used to determine the indicative economic viability of potential development sites which have been assessed through the Strategic Housing Land Availability Assessment (SHLAA). The methodology sets out how the assumptions in the viability model have been determined and how they will be applied.

The model uses the Homes and Communities Agency Economic Assessment Toolkit to assess the residual land value of each typology example. This covers a range of variables which will impact on the viability of a given site, for example, house build costs, site acquisition costs and affordable housing contributions, if required. The use of this framework ensures that a consistent testing method can be applied to the different land values for each regeneration area identified in the Core Strategy.

The description and character of each typology is set out below:

	Description
Type 1 – Small site	14 units based on Brownfield site for regeneration
Type 2 – Medium site	50 units based on a Greenfield site for development
Type 3 – Large site	250 units based on a Greenfield site for development

This is a strategic-level assessment which provides a broad view of site viability based on a range of variables which have taken into account local economic conditions. It is not intended to provide a comprehensive, site-specific assessment; rather it is to demonstrate that the deliverability of such sites in line with the policies of the Core Strategy are viable.

As market conditions change over the Core Strategy plan period (2011-2027), so will the assumptions used to test site viability. As such, sites identified in the SHLAA that are considered appropriate to allocate will be tested individually when preparing Area Action Plans for each of the three Key Regeneration Areas and the Delivery and Management DPD.

The Indicative Economic Viability Assessment highlights that in some instances it is likely that developments would not be viable if they were to deliver all the policy requirements of the Core Strategy. This means that the Council will need to be flexible in its application of the requirements of the Core Strategy policies, to ensure delivery and that the broad objectives of the Core Strategy and indeed the Council are being met.

It is important that each site is considered on its own merits to ensure that any benefits delivered contribute to the infrastructure and sustainability of the wider community.

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# 1. Background

This study considers the broad strategic viability of residential development over a range of sites and building types which are common to the Isle of Wight.

The general modeling assumptions for each policy area of the Core Strategy are set out later within this document, and are based on costs and values relevant at November 2010. Further to this the assumptions have been determined in consultation with local developers and agents to ensure their robustness within the current housing market.

Indicative viability of the different site typologies has been determined by a comparison of the residual land value to existing land values.

## 2. Typology Descriptions and Character

### 2.1 Type 1

Small site 14 units

This is expected to be a brownfield site for regeneration.

### 2.2 Type 2

Medium site 50 units

This is expected to be a Greenfield site for development

### 2.3 Type 3

Large site 250 units

This is expected to be a Greenfield site for development

## 3. Policy Context

The policy context has been modeled using the emerging draft Core Strategy policy framework and follows the Strategic Policies and Development Management Policies set out within the document.

As a result, certain assumptions have been modeled, including 35% affordable housing, the need for older persons accommodation to be at least 20% of the overall development and the need for sites over 250 units to provide some onsite generation of power.

In addition further information that is known, such as the requirement for developments in Newport to contribute to the Newport Traffic Model have been included within development viability assessments.

Whilst the Core Strategy does not set out the actual S106 requirements we have put in a set amount per unit in order to test the model. No reliance on this figure should

be inferred from the inclusion within the modeling. The Council will be preparing the Planning Obligations SPD which will set out in detail the expected S106 contributions and how the figure has been calculated.

## 4. Data Assumptions and Assessment Methods

We have used the Homes and Communities Agency Economic Assessment Toolkit to assess the residual land value of each typology example.

Each Core Strategy area has been specifically separated in order to ensure that testing can be applied to the different values and circumstances that each area needs to deliver. However there are a set of common figures that have been applied to all developments as follows:

### 4.1 General Assumptions

- Rural sites tested at 30 dph
- Medium and Large Sites tested at 40 dph
- Small sites tested at 50 dph
- Construction Start Small sites month 6, medium sites month 6 and large sites month 9
- Construction End Small sites month 15, medium sites month 30 and large sites month 58
- Final end date of scheme small sites month 18, medium sites month 32 and large sites month 60
- 20% of housing to be designed for older people

Housing Mix	Unit Size M <sup>2</sup>
1 Bed Flat	42m <sup>2</sup>
2 Bed Flat	51m <sup>2</sup>
2 Bed House	65m <sup>2</sup>
3 Bed House	76m <sup>2</sup>
4 Bed House	112m <sup>2</sup>
4 + Bed House	140m <sup>2</sup>

### 4.2 Affordable Housing

- 70% rented (using 80% market values) of total number of units
- 30% intermediate sale housing using 80% market values
- Management Costs 13% of net rent
- Void Costs 5% of net rent
- Repairs fund 13% of net rent
- Yield 6%
- Timing of first affordable housing purchase payment Start month 30, End month 58

### 4.3 Timing of Open Market Sale and Final Market Sale

- Small areas – start 12 finish 18
- Medium areas - start 12 finish 32

- Large areas - start 15 finish 60

#### 4.4 Ground rents

- Average figure of £150 per unit per annum with a yield of 6%
- Timing of ground rent payment 12 months for small areas, 12 months for medium areas and 15 months for large areas.

#### 4.5 Social Housing Grant

- No social housing grant has been input into the system to take into account current unavailability of funding

#### 4.6 Other sources of funding

- No other sources of funding are included in the model.

#### 4.7 Housing Build Costs

Base build costs have been determined by advice from applicants and agents with reference to BCIS at levels relevant to November 2010. The base build costs are that required to build the entire unit on plot with 1m deep foundations and all necessary services. Any decontamination, main trunk services and distributor roads are treated as abnormals.

Housing Build Costs (m <sup>2</sup> BCIS)	£	Net to Gross %
Flats	1100	80%
Terraced houses	950	100%
Semi detached houses	950	100%
Detached houses	950	100%

#### 4.8 Car Parks

- Build costs set at £3000
- Values set at £8000 per space

#### 4.9 Build design fees and contingencies

- Build design fees set at 10%
- Building contingencies set at 5%

#### 4.10 S106 Costs

- A set rate of £10,000 per unit has been used to test the model. Payment month 12
- Newport Transport Infrastructure Contributions £5,000 per unit. Payment month 12
- Affordable housing payment for sites under 15 units as per affordable housing policy.

Unit size	Contribution (£)	Month of payment
1 Bed flat	1750	12
2 Bed flat	2250	12
2 Bed House	3750	12
3 Bed House	4250	12
4 Bed House	6000	12
4+Bed House	6000	12

#### 4.11 Abnormals

- Services set at 6% of overall build cost
- Miscellaneous costs set at 3% of overall build cost

#### 4.12 Site sustainability

- An allowance of 5% of build cost has been made to achieve Code level 4
- For sites up to 250 and above an additional 3% has been added for on site power generation.
- For sites of 250 and above an additional 4% has been added for District Heating Systems

#### 4.13 Site Acquisition costs

- Agents fees 1.5% of site value
- Legal Fees 0.75% of site value
- Stamp Duty 4%

#### 4.14 Finance Costs

- Arrangement fee £1,000 per unit
- Interest Rate 10%
- Miscellaneous Fees £200 per unit

#### 4.15 Marketing Costs

- Sale to an RSL £1000 per unit. Timing month 12
- RSL on costs £250 per unit
- Intermediate Housing Sales and Marketing £600 per unit
- Open Market Sales Fees 6%
- Legal Fees £800 per unit

#### 4.16 Developers Return

- Open Market Housing 20%
- Affordable Housing 6%



## 5. Medina Valley

### 5.1 Cowes

#### 5.1.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	4	10	40
2	4	16	80
3	5	20	100
4 or more	1	4	30

#### 5.1.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
Medina Valley – Cowes	2255	2160

#### 5.1.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

### 5.2 East Cowes

#### 5.2.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	2	8	45
2	5	15	80
3	6	21	105
4 or more	1	6	20

#### 5.2.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
Medina Valley – East Cowes	2240	2150

### 5.2.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

## 5.3 Newport

### 5.3.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	2	12	60
2	5	15	76
3	6	19	94
4 or more	1	4	20

### 5.3.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
Medina Valley – Newport	2240	2150

### 5.3.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

## 6. Ryde

### 6.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	2	8	42
2	4	14	68
3	7	21	115
4 or more	1	7	25

### 6.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
Ryde	2220	2125

### 6.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

## 7. The Bay

### 7.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	2	6	30
2	6	18	92
3	4	22	113
4 or more	2	4	15

### 7.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
The Bay	2240	2150

### 7.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

## 8. West Wight

### 8.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	2	8	40
2	4	15	90
3	6	23	105
4 or more	2	4	15

### 8.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
West Wight	2250	2155

### 8.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

## 9. Ventnor

### 9.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	1	4	15
2	6	20	105
3	7	25	128
4 or more	0	1	2

### 9.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
Ventnor	2240	2150

### 9.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

## 10. Rural Service Areas

### 10.1 Assumptions used in EAT from Housing Mismatch Tables

Bed Size	14 units	50 units	250 units
1	2	10	52
2	6	21	112
3	5	17	80
4 or more	1	2	6

### 10.2 Value Assumption per m<sup>2</sup> (£)

	Flats	Houses
Rural Service Areas	2255	2160

### 10.3 Existing Use Values (£)

	Value per ha brownfield	Value per ha greenfield
14	800,000	10,000
50	800,000	10,000
250	800,000	10,000

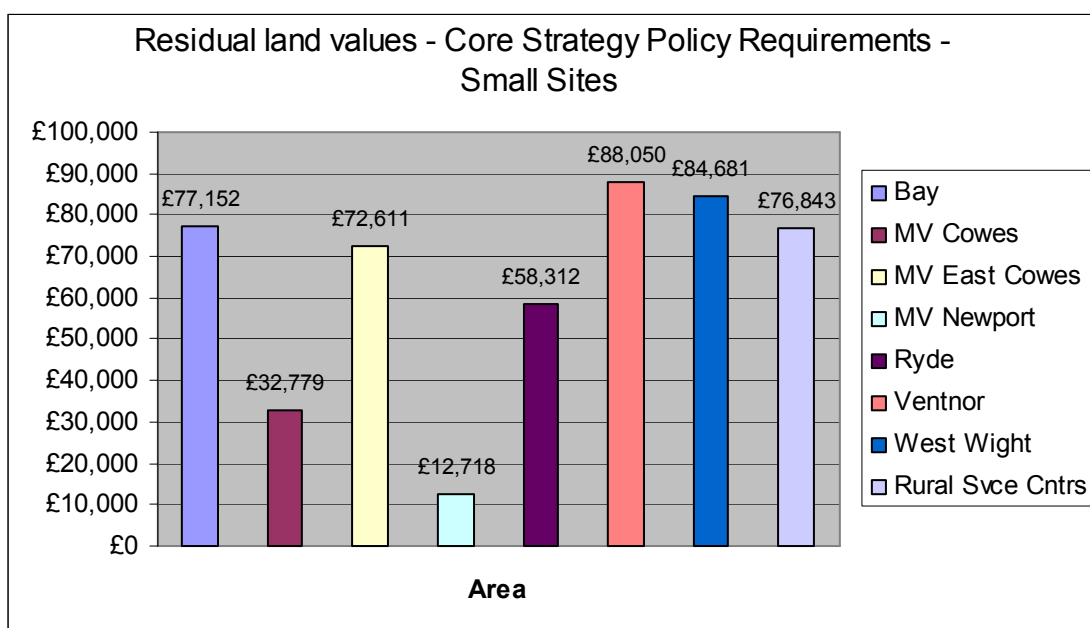
# 11. Assessment Findings

## 11.1 Indicative residual site values – Core Strategy Policy Requirements

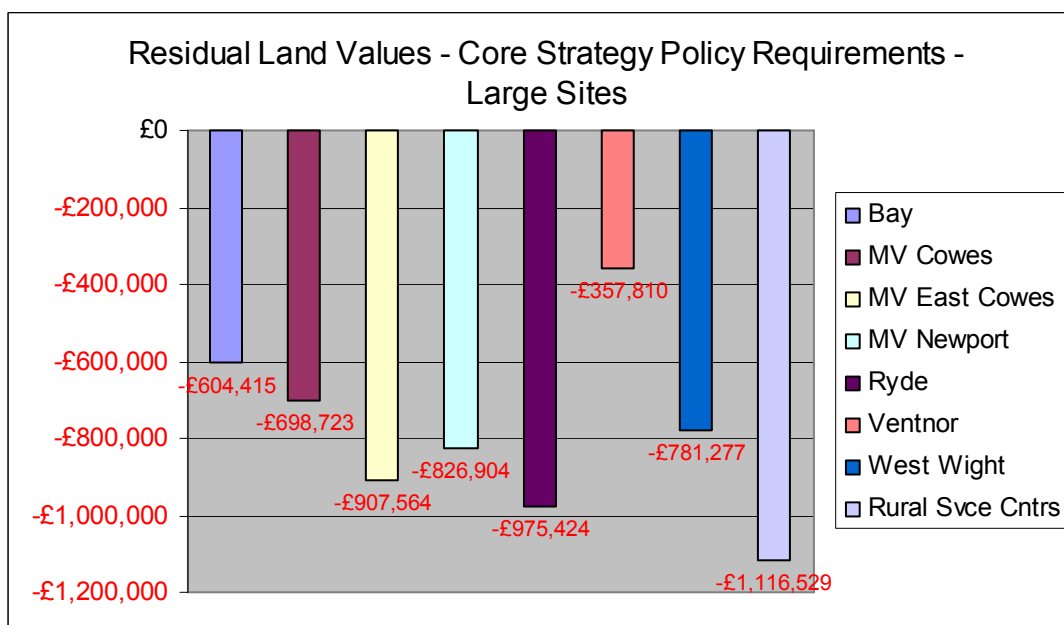
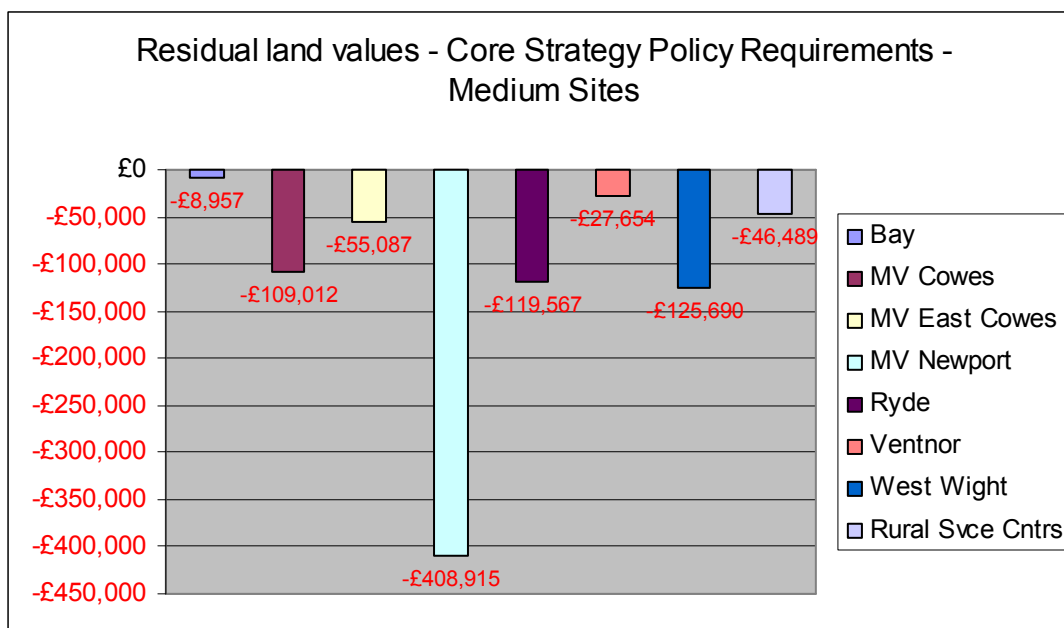
	The Bay	Medina Valley – Cowes	Medina Valley – East Cowes	Medina Valley – Newport
Small sites	£77,152	£32,779	£72,611	£12,718
Medium sites	-£8,957	-£109,012	-£55,087	-£408,915
Large sites	-£604,415	-£698,723	-£907,564	-£826,904

	Ryde	Ventnor	West Wight	Rural Service Centres
Small sites	£58,312	£88,050	£84,681	£76,843
Medium sites	-£119,567	-£27,654	-£125,690	-£46,489
Large sites	-£975,424	-£357,810	-£781,277	-£1,116,529

Key	
Viable	£77,152
Less Viable	£32,779
Limited Viability	£12,718
Unviable	-£8,957









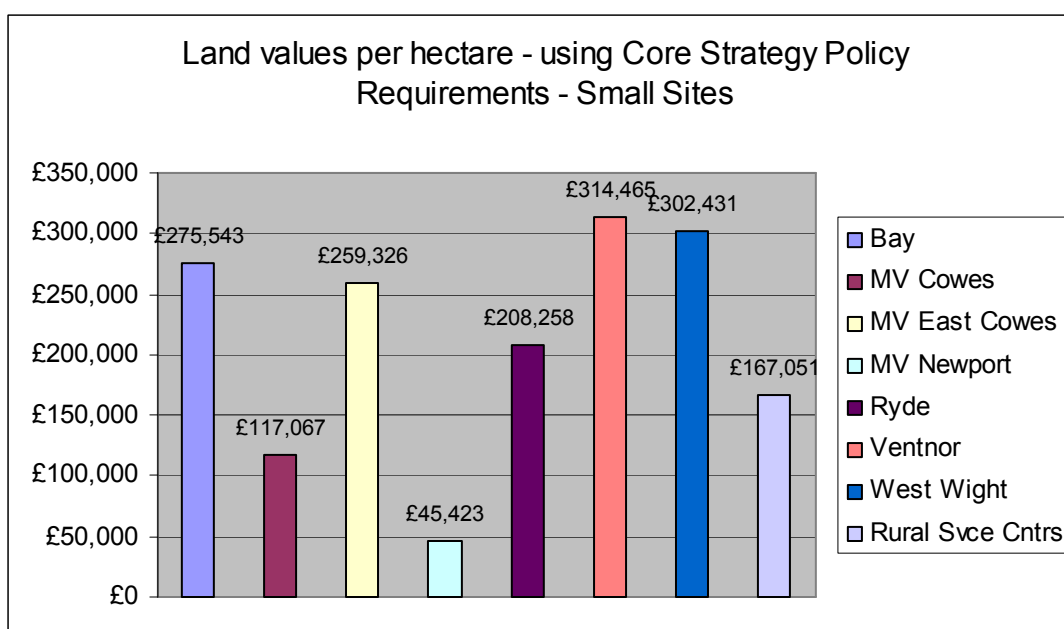


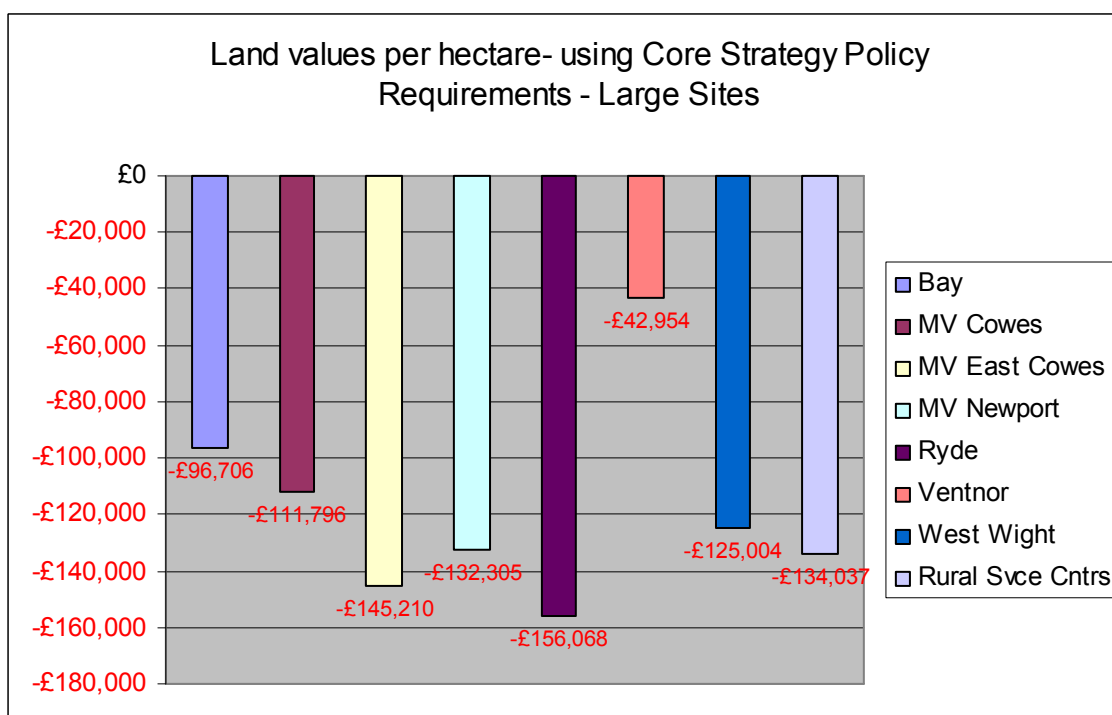
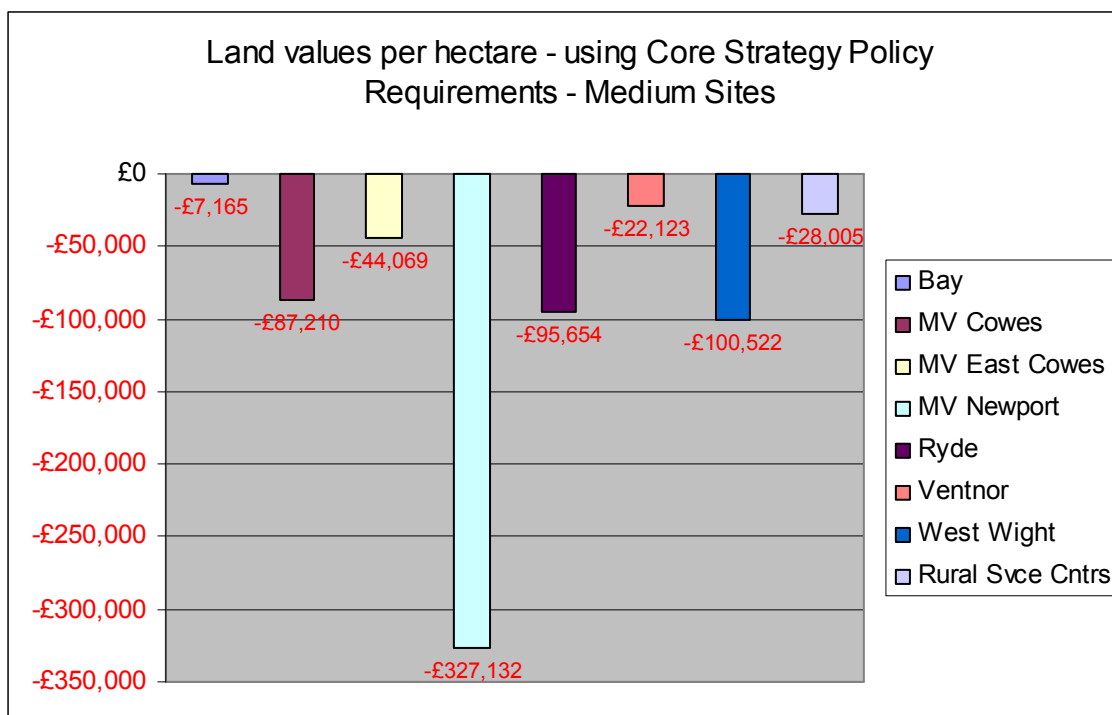
### 11.2 Indicative land values per hectare – using Core Strategy Policy Requirements

	The Bay per ha	Medina Valley – Cowes per ha	Medina Valley – East Cowes per ha	Medina Valley – Newport per ha
<b>Small sites</b>	£27,5543	£117,067	£259,326	£45,423
<b>Medium sites</b>	-£7,165	-£87,210	-£44,069	-£327,132
<b>Large sites</b>	-£96,706	-£111,796	-£145,210	-£132,305

	Ryde	Ventnor	West Wight	Rural Service Centres
Small sites	£208,258	£314,465	£302,431	£167,051
Medium sites	-£95,654	-£22,123	-£100,522	-£28,005
Large sites	-£156,068	-£42,954	-£125,004	-£134,037

Key	
Viable	
Less Viable	
Limited Viability	
Unviable	









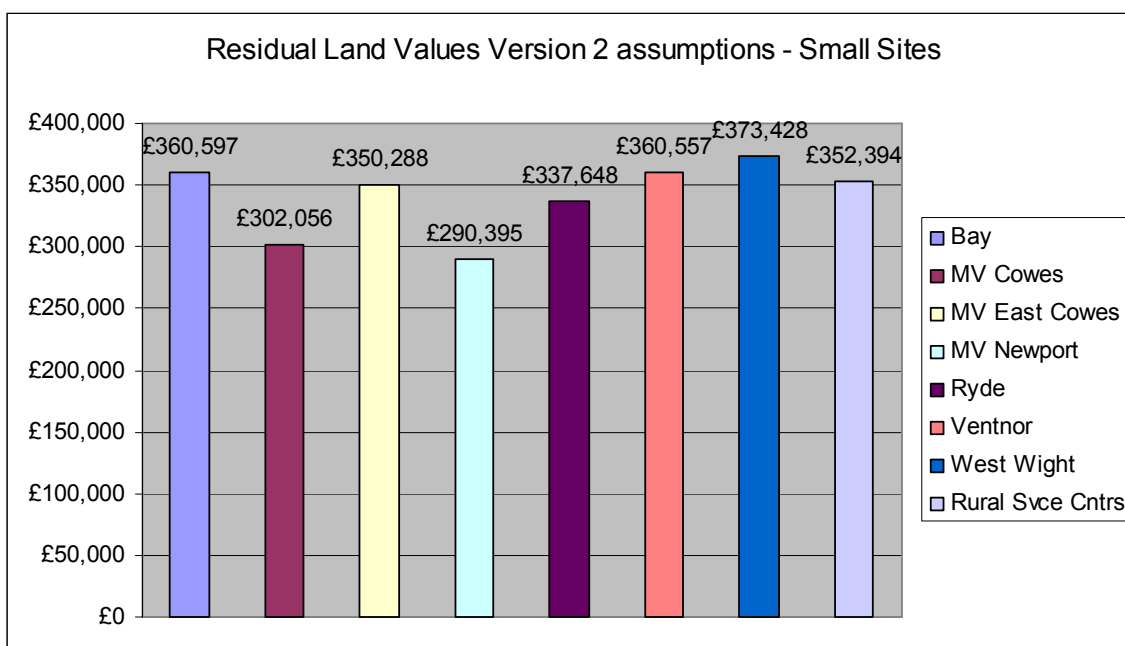
### 11.3 Residual Land Values – Version 2 Assumptions

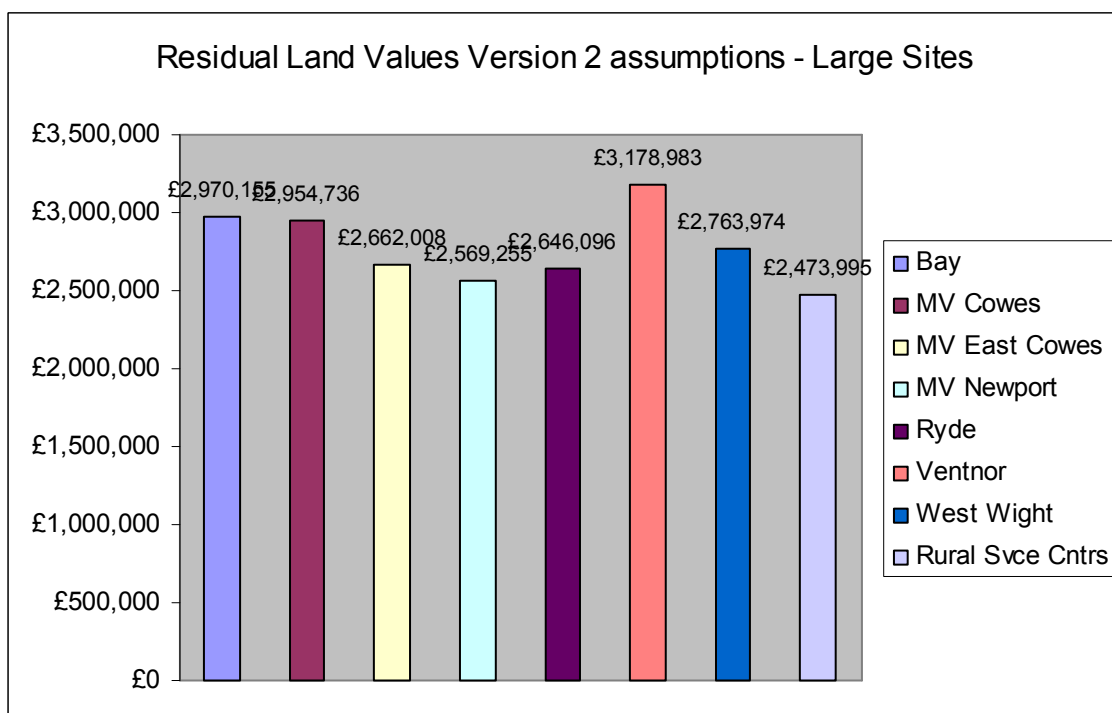
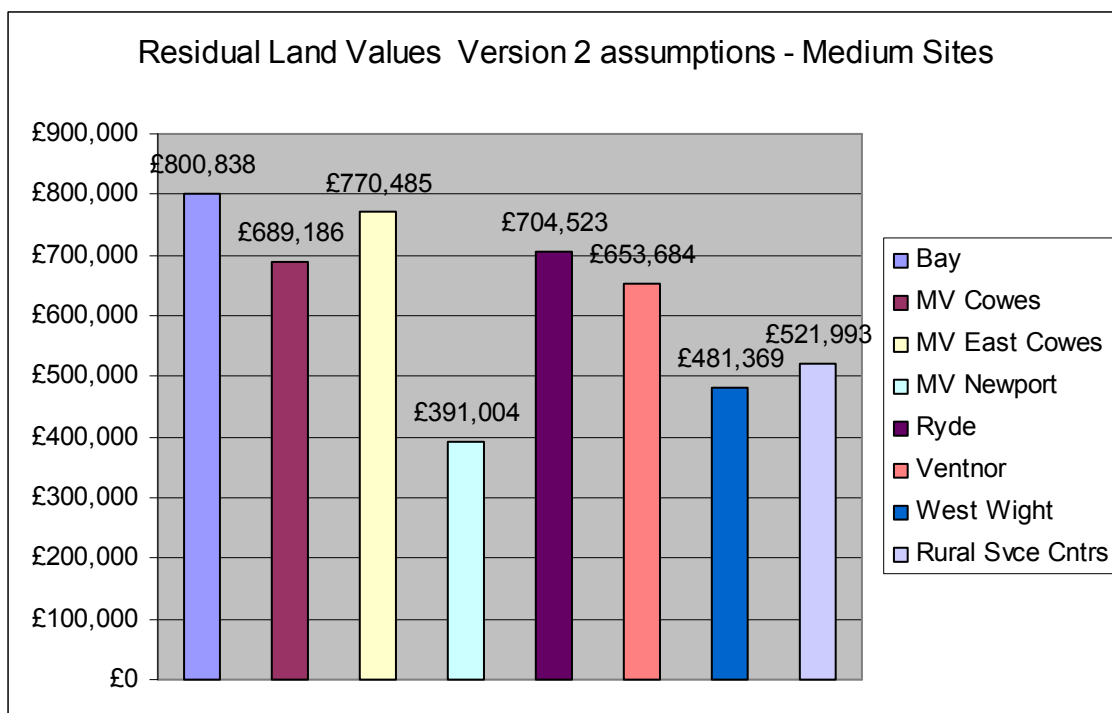
- Open market values psm increased by 3%
- s106 reduced to £6k per unit
- Code 4 deleted
- Energy generation reduced to 1.5% for small and medium sites and 2.5% for large sites
- Miscellaneous site abnormalities reduced to 5%
- Developers profit for open market sales reduced to 15%

	The Bay per ha	Medina Valley – Cowes per ha	Medina Valley – East Cowes per ha	Medina Valley – Newport per ha
<b>Small sites</b>	£360,597	£302,056	£350,288	£290,395
<b>Medium sites</b>	£800,838	£689,186	£770,485	£391,004
<b>Large sites</b>	£2,970,155	£2,954,736	£2,662,008	£2,569,255

	Ryde	Ventnor	West Wight	Rural Service Centres
<b>Small sites</b>	£337,648	£360,557	£373,428	£352,394
<b>Medium sites</b>	£704,523	£653,684	£481,369	£521,993
<b>Large sites</b>	£2,646,096	£3,178,983	£2,763,974	£2,473,995

Key	
Viable	
Less Viable	
Limited Viability	
Unviable	







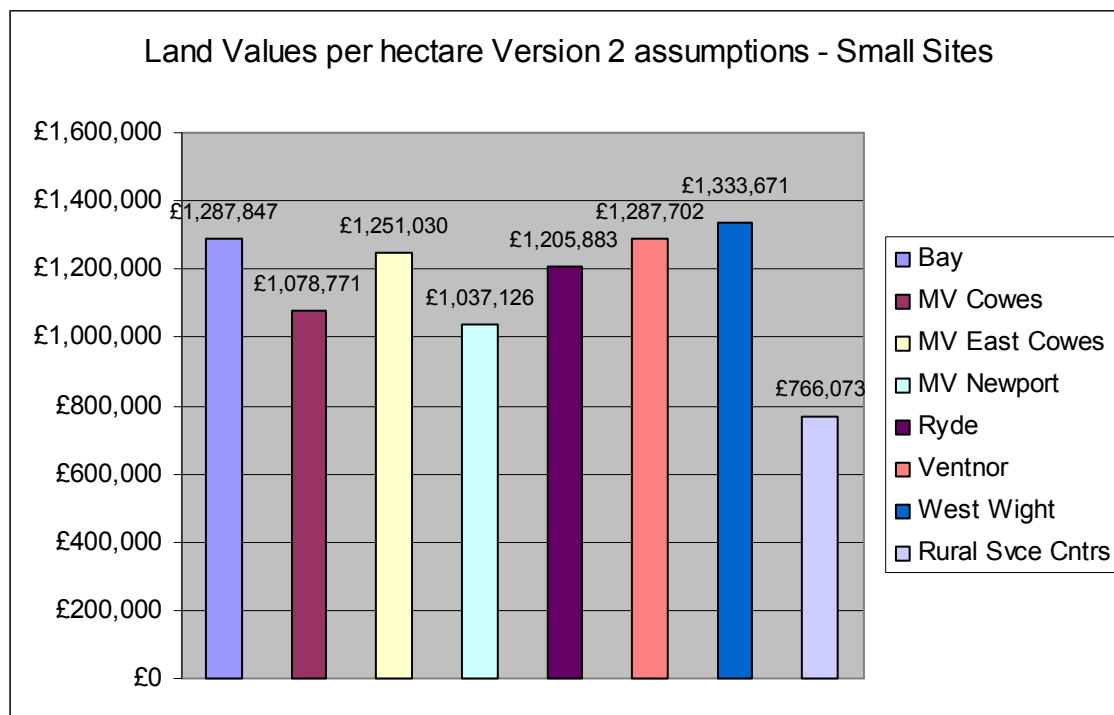


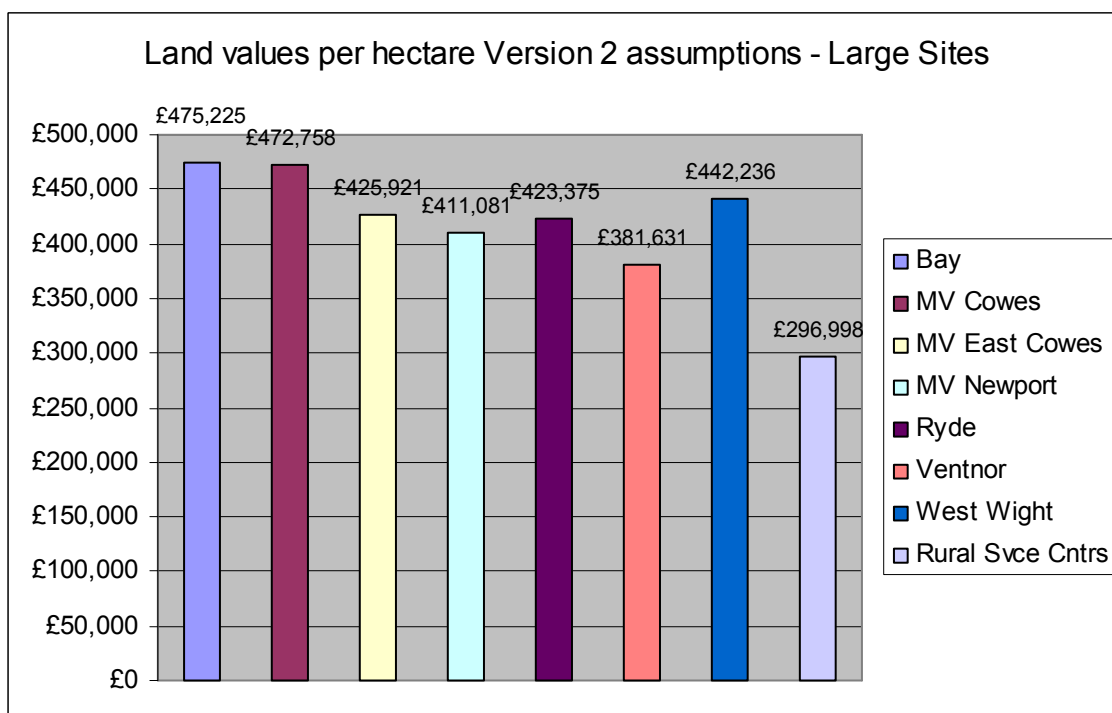
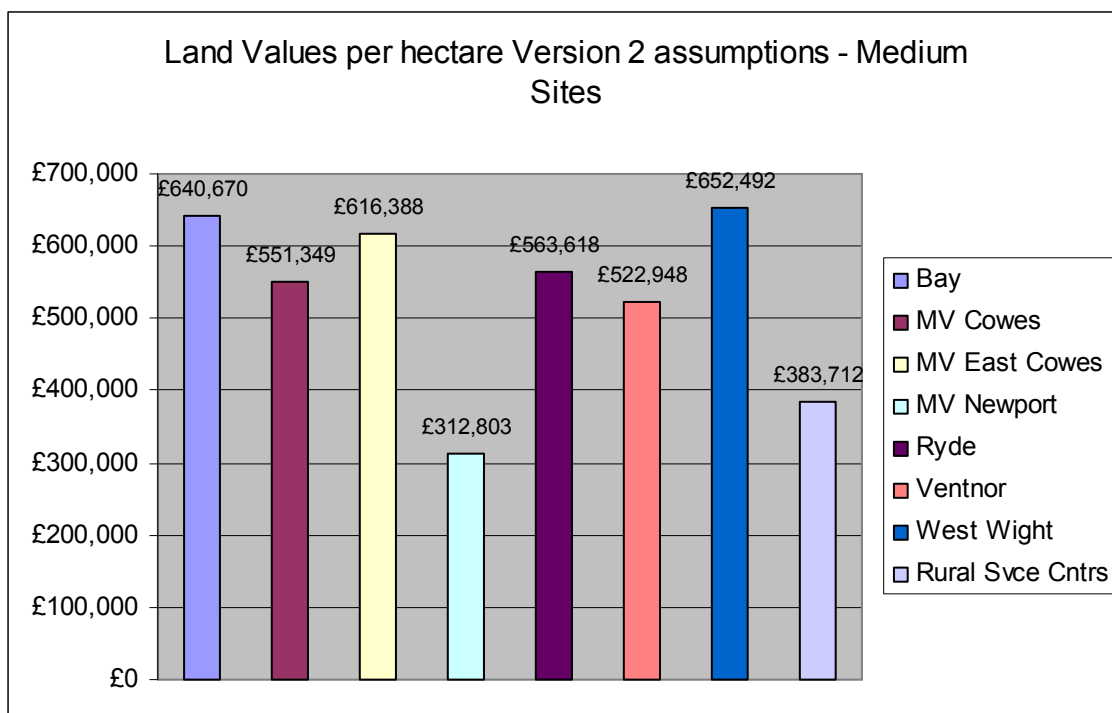
#### 11.4 Land values per hectare – Version 2 Assumptions

	The Bay per ha	Medina Valley – Cowes per ha	Medina Valley – East Cowes per ha	Medina Valley – Newport per ha
<b>Small sites</b>	£1,287,847	£1,078,771	£1,251,030	£1,037,126
<b>Medium sites</b>	£640,670	£551,349	£616,388	£312,803

<b>Large sites</b>	£475,225	£472,758	£425,921	£411,081
	<b>Ryde</b>	<b>Ventnor</b>	<b>West Wight</b>	<b>Rural Service Centres</b>
<b>Small sites</b>	£1,205,883	£1,287,702	£1,333,671	£766,073
<b>Medium sites</b>	£563,618	£522,948	£652,492	£383,712
<b>Large sites</b>	£423,375	£381,631	£442,236	£296,998

<b>Key</b>	
<b>Viable</b>	
<b>Less Viable</b>	
<b>Limited Viability</b>	
<b>Unviable</b>	





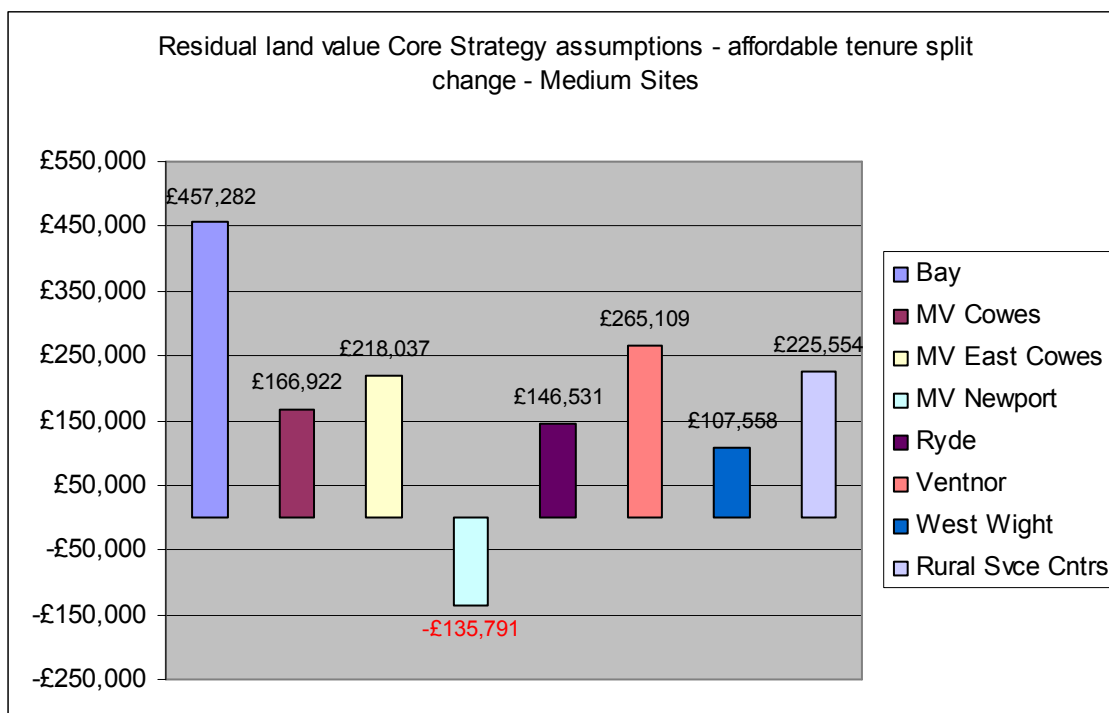
### 11.5 Residual land value Core Strategy assumptions affordable tenure split change

- SHLAA objectives unchanged
- Affordable housing tenure mix reversed 30% social Rented and 70% intermediate sales
- *No change to Small sites as no affordable on site*

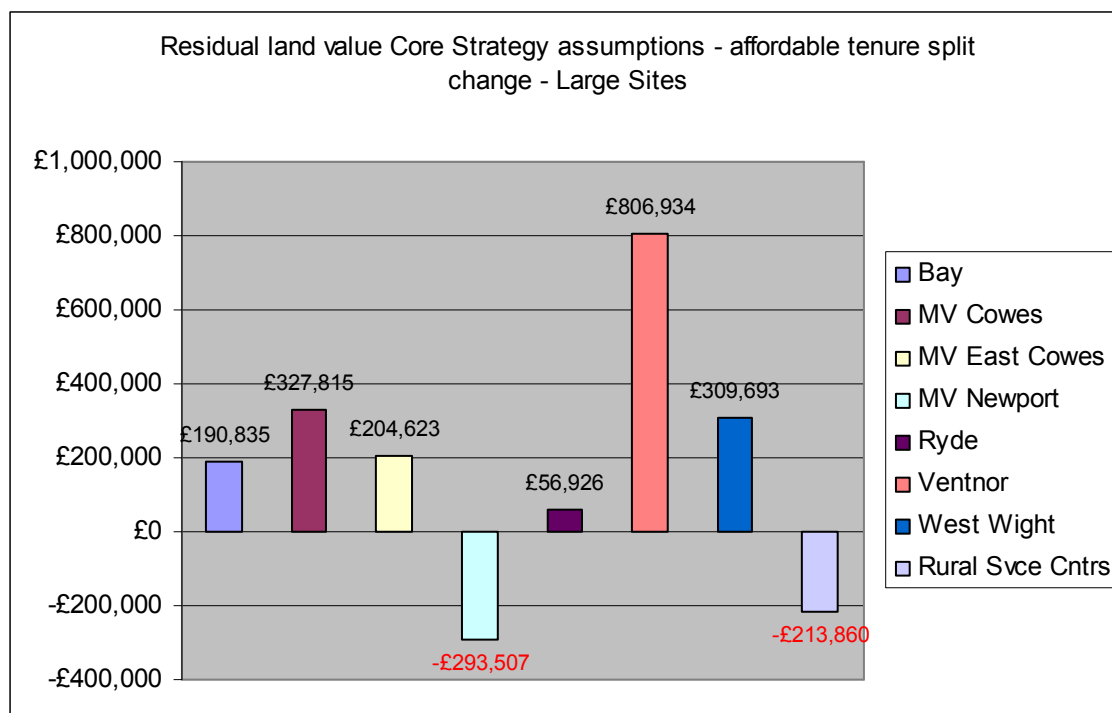
	The Bay per ha	Medina Valley – Cowes per ha	Medina Valley – East Cowes per ha	Medina Valley – Newport per ha
<b>Medium sites</b>	£457,282	£166,922	£218,038	-£135,791
<b>Large sites</b>	£190,836	£327,816	£204,624	-£293,508

	Ryde	Ventnor	West Wight	Rural Service Centres
<b>Small sites</b>	£146,531	£265,110	£107,558	£225,554
<b>Large sites</b>	£56,927	£806,934	£309,693	-£213,860

Key	
Viable	Green
Less Viable	Yellow
Limited Viability	Orange
Unviable	Red







### 11.6 Land value per hectare Core Strategy assumptions affordable tenure split change

	The Bay per ha	Medina Valley – Cowes per ha	Medina Valley – East Cowes per ha	Medina Valley – Newport per ha
Medium sites	£73,165	£133,538	£174,430	-£108,633
Large sites	£152,669	£52,451	£32,740	-£46,961

	Ryde	Ventnor	West Wight	Rural Service Centres
Small sites	£146,531	£265,110	£107,558	£225,554
Large sites	£56,927	£806,934	£309,693	-£213,860

Key	
Viable	Green
Less Viable	Yellow
Limited Viability	Orange
Unviable	Red

