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PRELIMINARY REPORT

on

High-Level Plan-Wide Viability Assessments

undertaken by Burrows-Hutchinson Ltd

for

SWANSEA COUNCIL

in connection with its Preferred Strategy for



CDLI Abertawe
Swansea LDP
2023-2038

DECEMBER 2024

A.J.L.B.

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List of Acronyms / Abbreviations

AMR	Annual Monitoring Report
BHL	Burrows-Hutchinson Ltd
CCS	City and County of Swansea
DVM	Development Viability Model (site-specific Viability Appraisal toolkit)
FVA	Financial Viability Assessment (or Appraisal)
FW	Future Wales – The National Plan 2040
GDV	Gross Development Value
GIA	Gross Internal Area
LDP	Local Development Plan
LHMA	Local Housing Market Assessment
LPA	Local Planning Authority
NIA	Net Internal Area
PPW	Planning Policy Wales (Edition 12 : February 2024)
RVM	Regional Viability Model (for high-level viability assessments)
RLDP	Replacement Local Development Plan
SAB	SuDS Approving Body
SME	Small-to-Medium Enterprise
SoCG	Statement of Common Ground
SPG	Supplementary Planning Guidance
SuDS	Sustainable Drainage System(s)
The Manual	Welsh Government Development Plans Manual (Edition 3) : March 2020
TAN	Technical Advice Note
ULEV	Ultra-Low-Emission Vehicle
VSG	Viability Study Group
WDQR	Welsh Development Quality Requirements
WG	Welsh Government

1. INTRODUCTION

- 1.1 Burrows-Hutchinson Ltd (“BHL”) has been commissioned by Swansea Council to undertake a Plan-Wide Viability Assessment (“the Study”) of the financial viability of housing development, with a particular focus on the financial viability of delivering affordable housing and other s.106 obligations on market-led residential schemes.
- 1.2 This Report provides background to preliminary Plan-Wide high-level viability assessments that have been undertaken to date; to inform the preparation of a Preferred Strategy for the Council’s Replacement Local Development Plan (LDP2), covering the period from 2023 – 2038. It also presents the results from that preliminary High-Level Viability Assessment work, to test the viability of securing affordable housing from market-led housing developments.
- 1.3 The results presented in this Report are preliminary only. Further testing will be needed in due course, to assess the impact of detailed policies in the Deposit Plan on viability. The results of further High Level Viability Assessments will be published as evidence alongside the Deposit Plan, as required by Planning Policy Wales.
- 1.4 Given the preliminary and high-level nature of the results presented here, it is premature (and would be inappropriate) to apply the findings in this Report in determining current planning applications, for which more site-specific viability assessments are still required in relation to any challenge to policies in the current/adopted LDP on viability grounds.

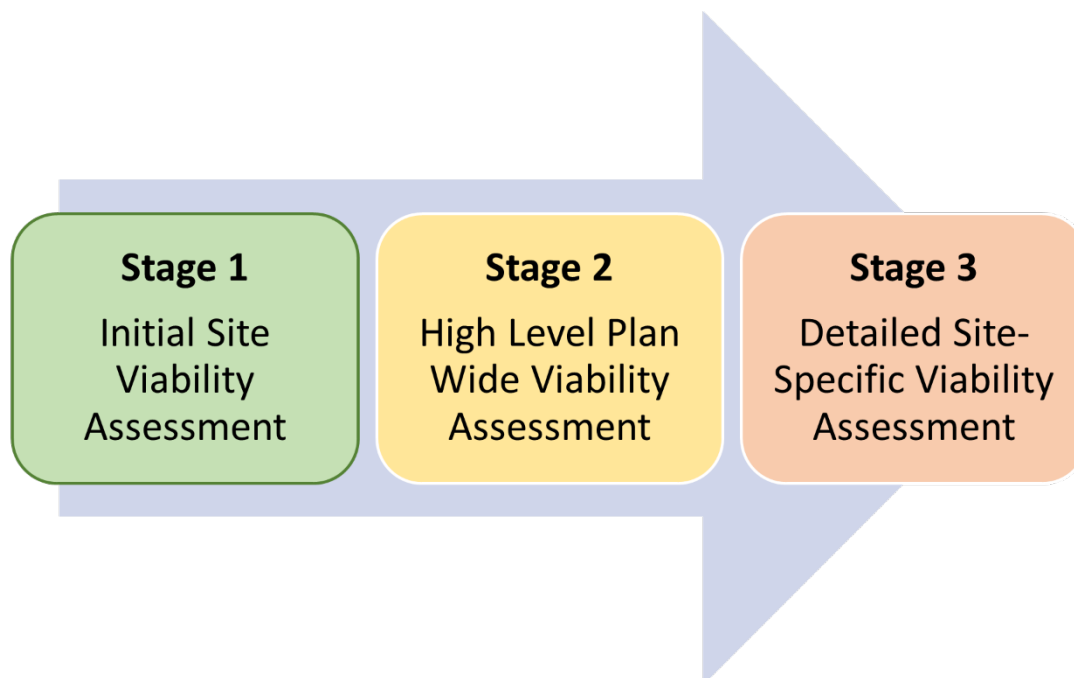
2. RICS COMPLIANCE

- 2.1 Prior to accepting the commission referred to in paragraph 1.1 above, it was confirmed that BHL has no actual/potential conflict of interest in undertaking the Study. BHL does not act for any site promoter(s), landowner or developer, who might have a financial or other beneficial interest in the outcome of the Study.
- 2.2 BHL also confirms that the fees agreed for this Study are not performance-related or in any way contingent on the outcome of the Study or the conclusions reached in this Report.
- 2.3 In accordance with the RICS Professional Standard entitled Financial Viability in Planning: conduct and reporting (April 2023), BHL confirms that the High-Level Viability Assessments (“HLVA’s”) have been undertaken impartially, in an objective way and without interference.
- 2.4 It is also confirmed that all relevant and available sources of information have been taken into account; and that, in accordance with best practice, the Study has relied on market-based, rather than client-specific, information.
- 2.5 It should be noted though that this Study has been undertaken at a time of some uncertainty in relation to future building specifications for tackling climate change. Developers and others in the construction industry have also faced significant supply chain and other challenges in the last 5 years, initially arising from the Covid-19 pandemic and more recently compounded by the events surrounding the war in Ukraine and unrest in the Middle East.
- 2.6 The Council expects there to be further engagement with developers, landowners and the construction industry more generally during the period following publication of its Preferred Strategy for LDP2. To ensure that the viability evidence that supports relevant policies in that Replacement LDP is as up to date and robust as possible, the High-Level Viability Assessments undertaken to date will be reviewed and refreshed in whatever way is appropriate prior to the Deposit and/or Examination stages of the Replacement LDP^A.

^A Paragraph 5.97 in the Development Plans Manual refers to the need for evidence “to remain relevant, up to date and proportionate to the stage reached” in the statutory plan preparation process.

3. THE LDP2 VIABILITY ASSESSMENT PROCESS

- 3.1 National planning policy in Planning Policy Wales highlights the importance of considering viability at an early stage in the plan-making process.
- 3.2 There are three stages of viability assessment for a Replacement LDP, as illustrated in **Figure 1** below:



- 3.3 The Development Plans Manual advises Local Planning Authorities to set up a Viability Study Group to agree appropriate assumptions on costs and values for high-level viability appraisals, as well as certain elements of more site-specific viability assessments. A series of workshops have been held across Wales in the last 18 months; including those for Pembrokeshire and Carmarthenshire in September 2023, Powys in April 2024 and the Vale of Glamorgan in June 2024. These workshops have been attended by developers, the Home Builders Federation (HBF), local agents, Registered Social Landlords (RSL) and internal Council departments.
- 3.4 The preliminary Plan-Wide viability work that is covered by this Report has relied to a large extent on the outcomes from those recent (and still pertinent) Viability Study Group sessions; supplemented by a fairly detailed review of open market sales data right across the Council's administrative area.
- 3.5 It is expected that the Council will host a further Viability Study Group meeting during 2025 to consider the findings from the initial high-level assessments that are covered by this Report.
- 3.6 Viability Study Group meetings are an important element in the collaborative effort between LPA's, landowners, developers and other industry stakeholders; as a means of establishing appropriate assumptions and parameters for both high-level and more site-specific viability assessments.

4. STAGE 1 : CANDIDATE SITE VIABILITY SUBMISSIONS

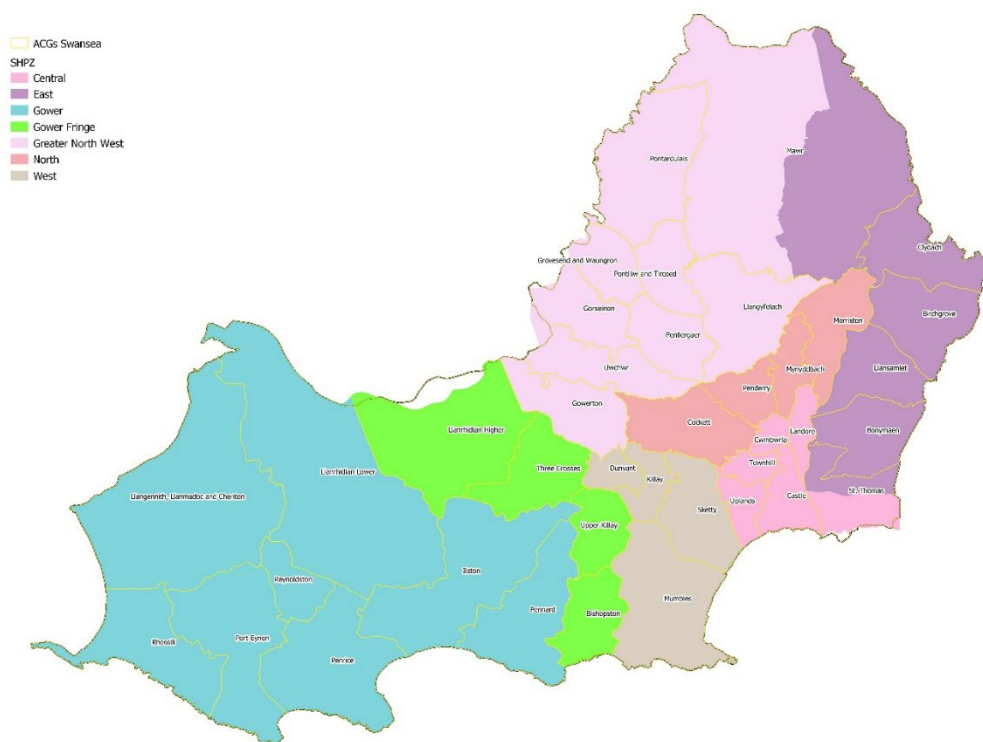
- 4.1 The viability assessment process for the Replacement LDP started at the Call for Candidate Sites. This commenced in August 2023 and ended on 31 October 2023. Site promoters were asked to submit an Initial Site Viability Assessment using the Development Viability Model (DVM) that is now available through all Local Planning Authorities in Wales.
- 4.2 Not all candidate site promoters have yet complied with this request, but all submissions accompanied by a completed DVM assessment have been analysed. The assumptions around values and costs made in these submitted viability assessments have been used, alongside other available evidence, to inform the inputs into the initial Plan-Wide High-Level Viability Assessments.
- 4.3 Undertaking and/or examining site-specific appraisals of candidate sites can be a useful way of informing the high-level assessments that will consider the viability of more general site typologies; in order to establish the broader policies that are applied to windfall sites, for example. Whilst site-specific appraisals can be undertaken without input from the owner or promoter of a site, it is preferable that those parties should be involved in all site-specific appraisals; as in many cases they will have (or will be able to obtain) information pertinent to viability, which may not be so readily available to the LPA.
- 4.4 It is also desirable that the owner and/or promoter of a site should have the initial opportunity to provide evidence of viability. If the site promoter is a developer/housebuilder, that party will (or should) have made some preliminary assessment of the site's financial viability in any event; even if it is based on a number of assumptions that rely on further investigation work. The LPA will be in a position to assess the validity and/or degree of risk attaching to those assumptions, which in turn will enable a sensible judgment to be made about deliverability, and the likely timing of delivery, for each site
- 4.5 **Table 1** below gives a summary of the information submitted by those site promoters.

Averages by Size of Development	21-40 Dwellings	41-80 Dwellings	80+ Dwellings
Land Value (£/net ha)	£807,352	£620,614	£691,424
Land Value (£/net ac)	£326,863	£251,260	£279,928
Housing Density (sqm/net ha)	3,359	3,132	3,539
House Prices (£ psm)	£3,786	£3,266	£3,143
Plot Costs (£ psm)	£1,377	£1,487	£1,231
Blended Profit Margin	18% on GDV	19% on GDV	19% on GDV

5. STAGE 2 : PLAN-WIDE HIGH-LEVEL VIABILITY ASSESSMENTS

- 5.1 Planning Policy Wales states that at the Deposit Stage there must be a high-level plan-wide viability appraisal undertaken to give certainty that the development plan and its policies can be delivered in principle, taking into account affordable housing targets, infrastructure and other policy requirements.
- 5.2 Swansea Council has engaged Burrows-Hutchinson Ltd to undertake the High-Level Viability Assessments using the Regional Viability Model (RVM) that was created as part of the Mid and South-West Wales Regional Viability Commission, for that purpose.
- 5.3 As a first step in this Study, BHL and the Council reviewed the following:
 - a) planning applications and permissions since the LDP was adopted, to see how – in terms of site size/dwelling numbers – development proposals have been coming forward; and
 - b) s.106 requirements and settlements, in order to provide guidance to site promoters on the likely requirements for community infrastructure and affordable housing on sites allocated in the Replacement LDP.
- 5.4 This was followed by an analysis of all the viability submissions received through the call for candidate sites, as explained in section 4 above.
- 5.5 Housing policies in Swansea Council’s adopted LDP refer to 7 Housing Market Areas. The boundaries to these SHPZ’s are shown in **Figure 2** below. These Housing Market Areas have also been used in the production of the new Local Housing Market Assessment, which assesses the level and type of housing needed for Swansea over the Replacement LDP period (2023 – 2038).

Figure 2 : Map of the Housing Market Areas



- 5.6 Another primary task undertaken, prior to running the High-Level Viability Assessments, has been a Plan-wide review of house prices. Evidence of open market sales drawn from the

Hometrack database shows a wide range of values across the Council’s administrative area; from an estimated average of £2,600 psm for new homes in the Eastern LHMA/SHPZ to an average of £3,800 psm in the Gower and other high value areas.

- 5.7 Based on this evidence, BHL has proposed that the High-Level Viability Assessments should be broken down into the following six Market Value Areas, matching the house prices in each value band with the benchmark land values shown in **Table 2** below:

Market Value Band	Average House Price	Benchmark Land Value
1	£2,600 psm	£200,000 per net acre
2	£2,800 psm	£240,000 per net acre
3	£3,000 psm	£280,000 per net acre
4	£3,300 psm	£320,000 per net acre
5	£3,500 psm	£360,000 per net acre
6	£3,800 psm	£400,000 per net acre

- 5.8 The Benchmark Land Values shown in **Table 2** above are considered to be “sufficient to encourage a land owner to sell for the proposed use”^B; and also reflect the principle that land for new housing in locations where market values are strongest can be expected to achieve a higher price per net developable acre than land in areas where house prices are weaker. By the same token, it is not unreasonable to expect developments in higher value areas to make a more significant contribution to a local authority’s affordable housing needs, than those in lower value areas where achieving that cross-subsidy will be less financially viable.
- 5.9 The map at **Appendix A** shows a suggested geographical distribution of these Market Value Bands across the City and County as a whole.
- 5.10 Transfer values for **affordable housing** in Swansea, have been based on 42% of the Welsh Government’s Acceptable Cost Guidance (ACG) for social rented tenure; and 70% of ACG for intermediate tenure. Welsh Government has not reviewed the ACG rates that include a value for the land on which the new home is built, since 2021. Swansea Council is in the process of adopting the same approach as that taken by some other Councils in South Wales, including Vale of Glamorgan Council, of adjusting the transfer values derived from the 2021 ACG’s in line with changes to the Social Rent Cap^C since 2021. Including the increase announced to take effect from April 2025, this amounts to an overall uplift of 20.32% on the 2021 transfer values.
- 5.11 A 70/30 split between social rent and intermediate tenures has been assumed throughout.
- 5.12 Development costs and target profit margins used in the High-Level Viability Assessments have been based on a combination of information from
- the BCIS database;
 - input from stakeholders at the Viability Study Group sessions referred to in section 3 above; and
 - data drawn from a number of site-specific cases, where appraisals have been carried out on an “open book” basis with the developers concerned. This last source includes data from candidate site submissions and Development Management cases.

^B See definition of Viability at the foot of page 138 in the Development Plans Manual.

^C Published by Welsh Government annually; with changes taking effect from 1st April each year.

- 5.13 For some areas of Wales, the BCIS database is based on a very small sample of sites/schemes, sometimes only in single figures; and with little recent evidence in the data sample. This highlights the need for viability assessments to be further informed by local evidence drawn from the latter two sources mentioned in the previous paragraph, including site-specific viability appraisals undertaken with developers/site promoters as part of the collaborative, plan-making exercise; as well as discussions and “common ground” established through Viability Study Group meetings.
- 5.14 Building/“plot cost” rates have been discussed at some length in the course of the three VSG meetings referred to in para. 3.3 of this Report. It is common ground that “plot costs” vary according to the size of a development project; with rates generally being higher for the small sites than for the larger ones. This has been reflected in the High-Level Viability Assessments undertaken to date.
- 5.15 On larger sites, the amount/cost of appropriate infrastructure may be quite large; such that what are commonly called the “**opening up**” costs of a major/strategic development site can have a significant impact on the overall land value per acre (or hectare). This is an important factor to be taken into account when one is considering what value represents an acceptable return to the landowner. It is unrealistic for a landowner to expect the same value per acre/hectare from a site that requires substantial “opening up” expenditure on infrastructure, as one might expect from a site that is already serviced with the necessary infrastructure.
- 5.16 On this basis, and because such infrastructure costs are normally quite site-specific, the high-level viability assessments assume that the land/site value adopted for each assessment is inclusive of what are commonly called “abnormal” site costs; in other words, the assumption is that any such costs will be deducted from the price actually paid to the landowner.
- 5.17 Allowances for **s.106 obligations and SuDS requirements** have been made as follows:
- a) £10,000 per dwelling for s.106 obligations (excluding affordable housing) on sites of more than 20 dwellings; and £4,500 per dwelling on sites of 20 dwellings or less; and
 - b) £4,500 per dwelling for SuDS adoption costs.
- 5.18 **Table 3** below presents the results of BHL’s initial High-Level Viability Assessments, in the form of the proportion of affordable housing that it should be viable for market-led residential development to deliver on-site across a range of site typologies and in the various house price bands across the Council’s administrative area.

Table 3	Market Value Area / House Price Band					
	1	2	3	4	5	6
Development Size						
2 – 4 dwellings	0%	0%	0%	0%	0%	0%
5 – 10 dwellings	0%	0%	12.5%	25%	37.5%	37.5%
11 – 20 dwellings	0%	12.5%	25%	37.5%	45%	50%
21 – 40 dwellings	3%	15%	28%	40%	50%	55%
41 – 80 dwellings	15%	25%	35%	45%	52.5%	55%
> 80 dwellings	16%	29%	37%	46%	55%	55%

- 5.19 The assessments from which the results in Table 3 are derived assume that development will be composed predominantly of 2/3-storey houses, but including some walk-up apartments in schemes of more than 80 dwellings.
- 5.20 In most of the instances where Table 3 indicates that it is not viable for affordable homes to be delivered on-site, there is still a surplus over the target profit margin used in the high-level viability assessments that could be taken as a financial contribution towards the provision of some affordable housing off-site. The quantum of those potential contributions to affordable housing off-site will be clarified as part of a further viability study prior to publication of the Deposit LDP2.
- 5.21 A review of consented schemes in recent years, as well as submitted candidate sites, indicated that high-level assessments should also be undertaken for higher density schemes consisting of apartment blocks of 3 or more storeys on (typically) brownfield sites. The results from that part of the initial study suggest that it may only be viable for such schemes to deliver on-site affordable homes in the highest house price band; and that the focus of future planning policy should be on securing financial contributions towards off-site provision of affordable homes from developments of this kind. This also takes account of the other potential complications relating to mixed-tenure apartment schemes.
- 5.22 The methodology behind the high-level viability assessments in this Study already affords a degree of sensitivity testing, by considering a range of potential house prices and land values for each site typology. Nevertheless, in accordance with best practice, the results from all the high-level assessments have been sensitivity tested to show the effect on developer's profit of the following changes to the basic inputs:
- plus/minus 10% in gross development value;
 - plus/minus 10% in build (plot + external) costs;
 - plus/minus 15% in land value.

6. SUMMARY and CONCLUSIONS

- 6.1 An important part of the initial work undertaken to date has been a thorough and extensive review of house prices across the Council’s administrative area. The map at **Appendix A** sets out the findings of that review by delineating six Market Values Zones, as explained in section 5 of this Report.
- 6.2 The preliminary results from BHL’s initial Plan-Wide High Level Viability Assessment have helped to inform the Council’s Preferred Strategy for LDP2, as is intended by the Development Plans Manual. They also pave the way for further discussion at a Viability Study Group session with stakeholders, following publication of the Council’s Preferred Strategy for LDP2, on policy targets for affordable housing and other s.106 obligations.
- 6.3 These preliminary results will also inform the assumptions that candidate site promoters should make in the site-specific viability assessments that need to be undertaken (or updated) prior to the allocation of sites in the Deposit LDP2. For that purpose, it is recognised that some of the affordable housing targets shown in Table 3, in section 5 above, amount to a significant increase on targets in the current/adopted LDP. It may be unrealistic to achieve those changes in a single step; and whilst “aspiration” is commendable in a local development plan, policies must also be realistic.
- 6.4 It is therefore suggested that the affordable housing targets set out in Table 3 on page 7 of this Report should be adjusted to the more conservative percentages shown in **Table 4** below:

Table 4	Market Value Area / House Price Band					
Development Size	1	2	3	4	5	6
2 – 4 dwellings	0%	0%	0%	0%	0%	0%
5 – 10 dwellings	0%	0%	12.5%	25%	37.5%	37.5%
11 – 20 dwellings	0%	12.5%	20%	30%	45%	50%
21 – 40 dwellings	5%	15%	20%	40%	50%	50%
41 – 80 dwellings	15%	20%	25%	40%	50%	50%
> 80 dwellings	15%	20%	25%	40%	50%	50%

- 6.5 The affordable housing targets in Table 4 are for developments of mainly 2/3-storey housing; but include some walk-up flats in schemes of more than 80 dwellings. For those typologies where Table 4 above suggests that it is not viable for affordable housing to be delivered on-site, there may still be an expectation that financial contributions could be made towards the provision of affordable housing off-site. The potential for, and the quantum of, such financial contributions will be the subject of a further viability study prior to publication of the Deposit LDP2.
- 6.6 For higher density developments of new residential apartments, the study to date suggests that there will be limited opportunity for securing/delivering affordable homes alongside open market dwellings on-site; but that financial contributions towards delivering affordable homes off-site merit further consideration.

- 6.7 It is emphasised that these results are only preliminary. The high-level assessments will be reviewed prior to publication of the Deposit LDP2, taking into account all new evidence that becomes available as well as any future changes in development costs and values between today's date and publication of the Deposit Plan for formal consultation.
- 6.8 It is also emphasised, given the preliminary nature of these viability assessments, that it would be inappropriate and premature to apply the findings in this report in determining current planning applications; where each case will still be considered/determined on its merits in the context of policies in the adopted LDP.
- 6.9 This Report is made for Swansea Council at the Pre-Deposit stage of its preparation of a Replacement LDP (LDP2) for the period 2023 – 2038; in order to make a preliminary appraisal of the viability of affordable housing and other related policies that might be included in LDP2. The Report has been prepared with all reasonable skill, care and diligence; and in a manner consistent with the RICS Practice Statement and Guidance Note for Surveyors acting as Expert Witnesses. Nevertheless, no duty of care can be accepted to third parties for the whole or any part of its contents.

Andrew Burrows MA FRICS

Director

Burrows-Hutchinson Ltd

December 2024

APPENDIX A : PLAN-WIDE MAP IDENTIFYING SIX HOUSE PRICE ZONES

