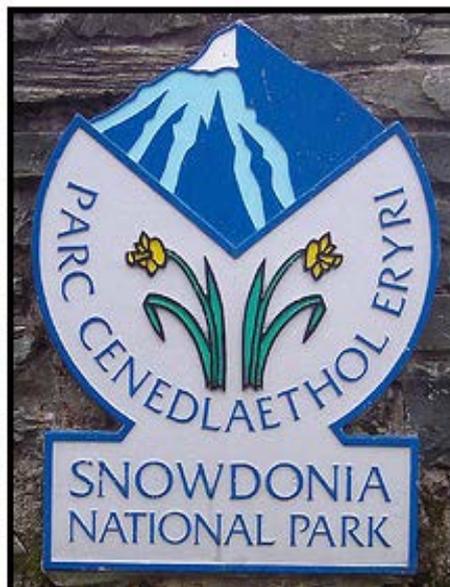


Snowdonia National Park Authority

Viability Update



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1 Background

The Snowdonia National Park Authority (SNPA) has recently submitted viability evidence to the Inspector in relation to its impending examination in public of the Plan.

The feedback from the inspector raises several technical points mainly relating to clarification of the approach adopted in the 2016 Viability Report.

However, the inspector has also suggested that, as that report is now almost 2 years previously, the viability evidence should be updated.

An update, as provided below, provides an opportunity to reflect changes in the local housing market, as well as changes to the recent ACGs (Acceptable Cost Guidance) which were published by the WG (Welsh Government) in January 2018.

This update report provides an updated analysis and addresses the questions posed by the inspector.

2 Update of viability

The HLT (High Level Testing) analysis has been updated (to March 2018) and determines residual values (on a 0.5 hectare scheme basis). The results are presented in a way which is consistent with the 2016 study; i.e. by first calculating residual values taking Affordable Housing revenue at 42% of ACG across the scheme, and then calculating the revenue on the basis of local incomes (as previously in the 2016 study).

The results are shown in Tables 1 and 2 below:

Table 1 Residual values (per 0.5 hectare) assuming Affordable Housing revenue at 42% of ACG.

ACG Route						
Residual Values (£ million per 0.5 Hectare)						
20 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£2.02	£1.78	£1.54	£1.30	£1.06	£0.82
Barmouth Hinterland	£0.54	£0.44	£0.33	£0.23	£0.13	£0.02
Betws y Coed & Hinterland	£0.36	£0.28	£0.20	£0.12	£0.04	-£0.04
Mountains (Northern Coastal)	£0.32	£0.24	£0.16	£0.08	-£0.01	-£0.09
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.24	£0.18	£0.11	£0.04	-£0.03	-£0.10
Dolgellau & Hinterland	£0.08	£0.02	-£0.04	-£0.10	-£0.16	-£0.21
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.25	-£0.28	-£0.30	-£0.33	-£0.35	-£0.38
30 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£2.71	£2.39	£2.06	£1.74	£1.42	£1.09
Barmouth Hinterland	£0.76	£0.62	£0.47	£0.33	£0.18	£0.04
Betws y Coed & Hinterland	£0.53	£0.41	£0.30	£0.18	£0.07	-£0.01
Mountains (Northern Coastal)	£0.46	£0.35	£0.23	£0.12	£0.00	-£0.12
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.37	£0.27	£0.17	£0.07	-£0.03	-£0.13
Dolgellau & Hinterland	£0.15	£0.06	-£0.03	-£0.11	-£0.19	-£0.28
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.29	-£0.33	-£0.37	-£0.41	-£0.45	-£0.49
40 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£3.34	£2.94	£2.54	£2.14	£1.74	£1.34
Barmouth Hinterland	£0.97	£0.79	£0.60	£0.42	£0.23	£0.05
Betws y Coed & Hinterland	£0.68	£0.53	£0.39	£0.24	£0.09	-£0.06
Mountains (Northern Coastal)	£0.61	£0.46	£0.31	£0.16	£0.02	-£0.14
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.49	£0.37	£0.24	£0.11	-£0.02	-£0.15
Dolgellau & Hinterland	£0.22	£0.11	£0.00	£0.11	-£0.22	-£0.33
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.31	-£0.37	-£0.42	-£0.48	-£0.54	-£0.59

Table 2 Residual values (per 0.5 hectare) assuming Affordable Housing revenue based on local income (Intermediate Affordable)

Intermediate Affordable Route						
Residual Values (£ million per 0.5 Hectare)						
	0%	10%	20%	30%	40%	50%
20 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£2.02	£1.78	£1.55	£1.31	£1.08	£0.85
Barmouth Hinterland	£0.54	£0.45	£0.37	£0.28	£0.19	£0.11
Betws y Coed & Hinterland	£0.36	£0.30	£0.23	£0.16	£0.09	£0.02
Mountains (Northern Coastal)	£0.32	£0.25	£0.19	£0.13	£0.06	-£0.01
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.24	£0.19	£0.13	£0.07	£0.02	-£0.05
Dolgellau & Hinterland	£0.08	£0.04	-£0.01	-£0.05	-£0.09	-£0.13
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.25	-£0.26	-£0.27	-£0.28	-£0.28	-£0.29
30 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£2.71	£2.40	£2.10	£1.79	£1.48	£1.17
Barmouth Hinterland	£0.76	£0.65	£0.54	£0.42	£0.31	£0.20
Betws y Coed & Hinterland	£0.53	£0.44	£0.35	£0.26	£0.17	£0.08
Mountains (Northern Coastal)	£0.47	£0.38	£0.30	£0.22	£0.13	£0.05
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.37	£0.30	£0.22	£0.15	£0.07	£0.00
Dolgellau & Hinterland	£0.15	£0.10	£0.04	-£0.01	-£0.01	£0.00
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.29	-£0.30	-£0.31	-£0.31	-£0.32	-£0.33
40 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£3.34	£2.97	£2.60	£2.23	£1.86	£1.49
Barmouth Hinterland	£0.97	£0.84	£0.70	£0.57	£0.44	£0.30
Betws y Coed & Hinterland	£0.68	£0.58	£0.47	£0.37	£0.26	£0.16
Mountains (Northern Coastal)	£0.61	£0.51	£0.41	£0.31	£0.22	£0.12
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.49	£0.41	£0.32	£0.23	£0.15	£0.06
Dolgellau & Hinterland	£0.22	£0.16	£0.10	£0.04	-£0.02	-£0.08
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.31	-£0.32	-£0.32	-£0.33	-£0.34	-£0.34

The results are shown for three potential densities – 20 dph, 30 dph and 40 dph (as for the 2016 analysis)

As in the previous study, there are significant differences across the National Park area. Residual value in the Aberdyfi area (Table 1 – 30 dph) is over £1 million per 0.5 hectares at 50% Affordable Housing yet in the Harlech area for example, it reaches almost £400,000 per 0.5 hectares at 100% Market Housing.

A split target is hence justified across the whole area.

Similar results can be seen by looking at Table 2, which, as is to be expected, gives an improvement on the figures in Table 1 (as the Affordable product is more valuable).

A mid market location such as the Mountains (Northern Coastal) has residual values in the range £450,000 to £600,000 per hectare equivalent (dependent on the Affordable Housing type) at 30 dph – at 20% Affordable Housing. These are healthy residual values expected to generate significant surpluses for the land owner in each case.

Land value benchmarks

The land value benchmark is important in determining whether schemes provide a return to both developer and land owner and will still come forward.

Table 3 below sets out the LVBs for the sub market areas. This is based on adjusting for house prices and residual values. And by looking at the differential impacts taking into account the ratio of both sets of data.

Being consistent with the previous (2016) analysis, which looked at other local authority benchmarks, this approach suggests LVBs (on per hectare basis) of between £600,000 and £50,000 equivalent (therefore £300,000 to £25,000 per half hectare scheme).

These LVBs can be then utilised to provide an indication of the viable Affordable Housing target for each of the sub market areas.

Table 3 Land Value Benchmarks

	Price 3 Bed Terrace	Relative House Prices	RV at 10% AH	Relative RVs	Ratio Relative HPs to RVs	LVB	LVB Adjusted	LVB Adjusted (0.5 Ha)
Aberdyfi	£321,000	191	£4,800,000	545	2.85	£400,000	£1,141,886	£570,943
Barmouth Hinterland	£186,000	111	£1,300,000	148	1.33	£400,000	£533,724	£266,862
Betws y Coed & Hinterland	£168,000	100	£880,000	100	1.00	£400,000	£400,000	£200,000
Mountains (Northern Coastal)	£165,000	98	£760,000	86	0.88	£400,000	£351,736	£175,868
Harlech & Hinterland (Porthmadog Hinterland)	£159,000	95	£600,000	68	0.72	£400,000	£288,165	£144,082
Dollgellau & Hinterland	£143,000	85	£200,000	23	0.27	£400,000	£106,802	£53,401
Blaenau Ffestiniog Hinterland (& Western)	£113,000	67	-£600,000	-68	-1.01	£400,000	-£405,471	-£202,735

Table 4 sets out the viable Affordable Housing percentages with a site developed via the Section 106 process. The table below shows the policy positions which are viable for each of the sub markets, taking into account the instances where the residual values exceeds the LVB.

Table 4 Viable Affordable Housing percentages (30 dph)

ACG Route						
Residual Values (£ million per 0.5 Hectare)						
30 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£2.71	£2.39	£2.06	£1.74	£1.42	£1.09
Barmouth Hinterland	£0.76	£0.62	£0.47	£0.33	£0.18	£0.04
Betws y Coed & Hinterland	£0.53	£0.41	£0.30	£0.18	£0.07	-£0.01
Mountains (Northern Coastal)	£0.46	£0.35	£0.23	£0.12	£0.00	-£0.12
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.37	£0.27	£0.17	£0.07	-£0.03	-£0.13
Dolgellau & Hinterland	£0.15	£0.06	-£0.03	-£0.11	-£0.19	-£0.28
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.29	-£0.33	-£0.37	-£0.41	-£0.45	-£0.49
Intermediate Affordable Route						
Residual Values (£ million per 0.5 Hectare)						
30 Dph	0%	10%	20%	30%	40%	50%
Aberdyfi	£2.71	£2.40	£2.10	£1.79	£1.48	£1.17
Barmouth Hinterland	£0.76	£0.65	£0.54	£0.42	£0.31	£0.20
Betws y Coed & Hinterland	£0.53	£0.44	£0.35	£0.26	£0.17	£0.08
Mountains (Northern Coastal)	£0.47	£0.38	£0.30	£0.22	£0.13	£0.05
Harlech & Hinterland (Porthmadog Hinterland & Bala & Hinterland)	£0.37	£0.30	£0.22	£0.15	£0.07	£0.00
Dolgellau & Hinterland	£0.15	£0.10	£0.04	-£0.01	-£0.01	£0.00
Blaenau Ffestiniog Hinterland (& Western SNP)	-£0.29	-£0.30	-£0.31	-£0.31	-£0.32	-£0.33

Table 4 shows that a 50% Affordable Housing contribution will be viable in the Aberdyfi area.

For the Barmouth & Hinterland area, the target may be set up to 40%, although at 30% assuming the ACG at 42% is the basis of the Affordable Housing calculation.

For the Betws-y-Coed, Mountains and Harlech sub markets and associated sub markets, the target ranges between 20% and 30% Affordable Housing, dependent on the nature of the Affordable Housing provision.

For the Dolgellau and Hinterland sub market, the viable target is around 10% Affordable Housing and it should be noted that a target of 20% Affordable Housing should not prove unrealistic using the Intermediate Affordable Housing option.

Development at Blaenau Ffestiniog looks marginal to non viable.

Comparing with the 2016 report

This stated:

'Section 106 sites

- 5.3 In so far as the Section 106 sites are concerned, there is considerable scope to deliver Affordable Housing, although this is clearly easier to do in the high value areas. Table 3.7 is the key to understanding this potential. In a location such as Aberdyfi residual values are approaching the equivalent of £1.6 million per hectare even at 50% Affordable Housing. In a location such as this it looks likely that a higher (than 50%) target could be delivered, were sites to come forward.
- 5.4 In a mid market location in the areas around the high mountains and Betwys-y-Coed, an Affordable Housing target of around 30% looks viable (also the Mountains), although this would fall to around 20% in locations such as Harlech and Bala. The latter is significant, as there is a larger site located there.
- 5.5 It may be possible to deliver Affordable Housing in the lower value areas such as Dolgellau and its hinterland, although development generally looks marginal in those settlements.
- 5.6 These conclusions relate to schemes that include Affordable Housing as Local Needs; i.e. Low Cost Home Ownership. In so far that Social Rented and other forms of Affordable Rented housing are included, viability significantly worsens. The testing using the ACG route evidences this issue (Table 3.8).'

On the basis of the above, it is concluded the overall viability picture has not changed significantly.

3 Clarifications to queries in the 2016 Viability Report

The point to be clarified were as set out below. I have highlighted the key areas.

1. Some of the evidence supporting the changes to Strategic Policy C is contained in Background Paper 18. - SNPA Affordable Housing Viability Study but there are a number of things that need further explanation, including: how the sub-market areas have been defined and, if they are based on the LDP, why are they appropriate; what are the benchmark land values and how have they been derived; the range of housing prices across the area by type of property and how this has changed over time; build costs per square metre; and how developer profit has been defined. Given the importance placed by national policy on delivering affordable housing a Hearing session will explore whether the Plan is proposing the correct balance of affordable housing and its delivery. Given that the consultants findings identified the degree to which the local housing market and prices can affect viability, a further update would be helpful especially as a period of over 1.5 years will have passed by the time this is discussed at a hearing. It will also provide an opportunity to consider the effects of the introduction of the requirement for sprinklers in all new homes and any Section 106 contributions (in line with Strategic Policy Ch) on the viability of schemes.
2. Appendix 2 to 'DC32-18 – Affordable Housing Study' is meant to show a 0.5 ha worked example as a tool to inform the viability of schemes. However, the screenshot on page 27 shows the site size as 1.0ha. Assuming that a 0.5 ha site example was chosen for a reason, i.e. a smaller example site is more appropriate to SNPA (see paras 1.6, 3.2, 3.12, 3.18, 3.19, 3.25 of DC32-18), and that the viability results are dependent on the site size, is this evidence reliable given the reference to 1.0ha, and does this evidence need to be re-run? What are the implications of this?

I take these points in turn:

3.1 Sub markets

These are based on the geographical unit of postcode sectors. The approach is set out in Table 3.1 of the 2016 report. The approach relies on some amalgamation of the postcode sectors to generate sub markets. It could be possible to have just postcode sectors, but then there is a danger of having a policy which is too 'fine grain' for practical purposes.

The approach adopted is one that has been used in over 15 Affordable Housing Viability Studies across Wales.

3.2 Benchmark Land Values

The approach to these is set out in Section 2 above (and the LVBs adopted for 2018 shown in Table 3 of this Update viability report).

3.3 Range of house prices and changes

The approach to the derivation of indicative new build house prices is set out in paragraph 3.10 of the 2016 Viability Report. The approach follows one which results from work carried out at the Centre for Residential Development at Nottingham Trent University. It has been adopted extensively across Wales and England as a way of generating robust indicative new build house prices for any given location.

To maintain consistency with the 2016 report, I have used prices from that time as a basis for this updated analysis. I have then looked at the HM Land Registry data to check price change for the period. This indicates a price increase over the period of 4.5% which I have built into my updated analysis.

3.4 Build costs per square metre

The approach is to take the base build costs from BCIS (Building Cost Information Service) and then make an allowance of 15% of external works and site infrastructure. The resultant cost is then adjusted for location (I have used here Gwynedd as the best possible indicator).

This approach has been used consistently across Wales and England and has been agreed as being robust in a vast number of developer workshops.

3.5 Developer profit

The profit margin adopted is 17%, as shown in the screenshot below:

to clear these tables

Other Development Costs

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be used

	Toolkit Values	User Values	
Professional Fees %	12%		of build costs
Internal Overheads	5%		of build costs (Market and ES)
Finance (Market)	6%		of build costs (Market and ES)
Finance (Affordable Housing)	6%		of build costs (SR, NH and IR units)
Marketing Fees	3%		of market value (Market and ES)
Developers Return	17%		of market value (Market and ES)
Contractors Return	5%		of development costs (excl finance) applies to SR, NH and IR units

In addition, there is a 5% overhead allowance on costs, making an equivalent 20% margin on gross development value.

For the Affordable Housing, a 6% contractor return has been made, reflecting the relative level of (lower) risk for this type of housing.

Other additional costs and their allowances (for example professional fees, finance and marketing) are also set out in the screenshot above.

It should be noted that the National Park are finding that smaller developers, prevalent in the area may be prepared to bring schemes forward at margins lower than 20%.

3.6 Update

This has been provided (Section 2 above).

3.7 Sprinklers

These were introduced in January 2016, and hence the costs picked up, in the 2016 study.

It follows therefore that, because the BCIS costs are based on ongoing tenders, that the costs of sprinklers will be factored in.

3.8 Section 106 contributions

It is understood that these are likely to be fairly minor in the case of the National Park, not least because development is relatively low key in terms of numbers.

To this end, I have made a £1,000 per unit allowance for items over and above Affordable Housing.

3.9 Worked example and one hectare site

The analysis has worked from a notional one hectare site which is consistent with other national parks in Wales (notably Brecon Beacons and Pembrokeshire Coast).

The results in table above (Section 2) are taken from a one hectare site and then halved for representation of likely sites in the National Park area.

The key driver of viability will always be location, rather than scale of development although it is accepted that in some instances (particularly 'one off' dwellings) costs will be higher than for larger developments. However, higher costs do not necessarily mean schemes which are less viable since in many instances smaller developments will attract a higher sales value due to the exclusive nature of the scheme.

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