

Belfast Planning Service, May 2023

Key assumptions for assessing development viability

1.1 Introduction

This document seeks to provide clarity to both developers and planners in terms of the key assumptions used when assessing the viability of development proposals as part of the planning process. It contains details of the key inputs that can be used to determine at a high level whether a fully policy compliant development could be viable. A worked example is used throughout and summarised by way of a completed Executive Summary template at Appendix A.

1.2 Gross Development Value (GDV)

1.2.1 While development costs are considered broadly comparable across the city, values vary significantly by location. Therefore, the city has been divided up into five value bands, with a further two in the city centre. Based on research, residential sales values have been modelled at a strategic level for each value band. Residential values vary by tenure and form of development, whilst commercial sales values have only been modelled within the two value bands in the city centre.

Residential GDV

1.2.2 Table 1 below shows the residential values for private/market and shared ownership housing, whilst GDV for social housing is based on Total Cost Indicators (TCIs) which are provided by Department for Communities. TCIs are normally reviewed twice yearly in consultation with the Northern Ireland Federation of Housing Associations (NIFHA).

Table 1: Residential GDV			
Value Bands	£ / sq. m		
	Market and Shared Ownership		Social housing
	Apartments	Houses	Houses and Apartments
City premium city centre (CC1)	4,257	4,106	Based on Total Cost Indicators (TCIs) ¹
City centre (CC2)	3,925	3,803	
Value band 1	3,475	3,366	
Value band 2	2,943	2,727	
Value band 3	2,410	2,265	
Value band 4	1,955	1,926	
Value band 5	1,440	1,530	

¹ Further information in relation to the Total Cost Indicators (TCIs) are available as part of DfC's HAG at: <https://www.communities-ni.gov.uk/total-cost-indicators-tci-summary>

1.2.3 The dwelling sizes used for general housing are based on the average sizes of market dwellings. Market housing, shared ownership, and social units' sizes are illustrated in the table below :

Table 2: Dwelling Sizes		
Type of units	Net Gross Internal Area (sq. m)	
	Market and Intermediate housing	Social housing
Studio	35	35
1 bed flat	50	50
2 bed flat	69	60
3 bed flat	116	70
4 bed flat	130	75
2 bed terraced	77	70
3 bed terraced	97	85
4 bed terraced	159	100
3 bed semi-detached	105	85
4 bed semi-detached	164	100
3 bed detached	120	90
4 bed detached	174	100
5 bed detached	279	115

GDV Example

The following example shows how GDV can be calculated for residential development of 30 units (15 x 3 bed semi-detached houses, 12 x 2 bed apartments and 3 x 3 bed terraces) in Value Band 3:

$$15 \times 105 \text{ m}^2 = 1,575 \text{ m}^2 (2,265 \text{ £/m}^2)$$

$$12 \times 69 \text{ m}^2 = 828 \text{ m}^2 (2,410 \text{ £/m}^2)$$

$$3 \times 97 \text{ m}^2 = 291 \text{ m}^2 (2,265 \text{ £/m}^2)$$

$$\text{TOTAL GDV} = (1,575 \text{ m}^2 \times \text{£}2,265) + (828 \text{ m}^2 \times \text{£}2,410) + (291 \text{ m}^2 \times \text{£}2,265) = \text{£}6,221,970$$

Build to Rent GDV

1.2.4 GDV for Build to Rent (BTR) housing is based on net annual rent calculated per square meter and rental yield ('Net rent' is rent minus operational cost (OPEX) allowance – refer to para. 1.4.4). Net annual rent is multiplied by 100 and divided by yield. BTR housing has been modelled only in two value bands in the city centre.

Table 3: BTR GDV		
Type/Yield	Rent £ pa/m²	
	CC1	CC2
1 bed flat	215	204
2 bed flat	220	208
Rental Yield	5%	

Commercial GDV

- 1.2.5 GDV for commercial use is based on annual rent calculated per square meter and rental yield similarly to BTR GDV. Annual rent is multiplied by 100 and divided by yield (yield is variable and depends on type of commercial use and value band). Commercial GDV has been tested only in two value bands in the city centre.

Type/Yield	Rental Yield (%)		Rent £ pa/m ²	
	CC1	CC2	CC1	CC2
Office	6	8	248	190
Retail	5.75	8	250	200

1.3 Benchmark Land Value (BLV)

- 1.3.1 The BLVs represent an estimate of nominal values for clean, reasonably level, developable sites with good access to services and no significant constraints or infrastructure requirements. If a site does have significant constraints, then it is assumed that the costs of dealing with these constraints would be reflected in a reduction in site value as part of any due diligence review by the purchaser.

BLV for residential element:

- 1.3.2 BLV can be calculated in 3 different ways depending in which Value Band the development is proposed:
- Within the city centre, BLV is calculated on a 'per plot' basis (i.e. per unit expected to be delivered);
 - Within Value Bands 1 and 2, BLV is calculated on a per Hectare (Ha) basis; and
 - Within Value Bands 3 to 5, BLV is calculated on a per Ha basis, with different values for greenfield and brownfield land.

Value Band	£ per plot	£ per Ha	£ per Ha	
			Greenfield	Brownfield
CC1	32,000			
CC2	12,000			
VB1		1,000,000		
VB2		1,000,000		
VB3			600,000	750,000
VB4			600,000	750,000
VB5			600,000	75,000

BLV Example

The following examples show how BLV can be calculated for this same residential development of 30 units (15 x 3 bed semi-detached houses, 12 x 2 bed apartments and 3 x 3 bed terraces) in Value Bands: CC1, VB2 and VB3 (see Table 5 above). The land is a brownfield site of 0.3Ha.

BLV in CC1: 30 x £32,000 = £960,000

BLV in VB2: 0.3 Ha x £1,000,000 = £300,000

BLV in VB3: 0.3Ha x £750,000 = £225,000

BLV for commercial element:

- 1.3.3 For any commercial elements of mixed-use schemes within the City Centre, BLV is modelled as a price per square metre as follows:

BLV	CC1	CC2
£ Per sq. m	440	165

1.4 Construction and development costs

Build costs

- 1.4.1 Build costs are articulated on a cost per square meter and vary by development type, height of buildings and use. For apartments and commercial buildings costs are based on the height of proposed buildings, with additional floorspace added as a percentage of the total to account for circulation space outside of units. The build costs are inclusive of costs of external works.

Units		£/m2	Additional circulation space (apartments only)
Houses		1,175	-
Apartments / Commercial development	1-3 storeys	1,343	10% of total cost
	4-10 storeys	1,679	15% of total cost
	11-14 storeys	1,958	20% of total cost
	15+ storeys	2,126	20% of total cost

Build Costs Example

For this same proposal for residential development of 30 units (15 x 3 bed semi-detached houses, 12 x 2 bed apartments in 3 storey building and 3 x 3 bed terraces) in Value Band 3, the residential base build cost is calculated as follows:

Houses:

15 x 3 bed semi-detached: $1,575\text{m}^2 \times 1,175 \text{ £/m}^2 = \text{£}1,850,625$

3 x 3 bed terraces: $291 \text{ m}^2 \times 1,175 \text{ £/m}^2 = \text{£}341,925$

Total houses = $\text{£}2,192,550$

Apartments:

12 x 2 bed apartments (3 storey): $828 \text{ m}^2 \times 1,343 \text{ £/m}^2 = \text{£}1,112,004$

Circulation space: $\text{£}1,112,004 \times 10\% = \text{£}111,200$

Total Apartments = $\text{£}1,223,204$

TOTAL BUILD COST = $\text{£}3,415,754$

Other residential costs

- 1.4.2 In addition to the base build costs and external works, the following allowances are also made in the viability testing:

Type	Cost
Professional fees	8% of build cost
Marketing fees	3% of GDV
Agents and legal	1.5% land value
Financing agreements (as a threshold)	For sites < 50 dwellings = 8% of build cost For sites > 50 dwellings = 6% of build cost
Utilities	£2,800 per unit
Drainage SuDS	£4,000 per unit (only for greenfield sites)
Sewerage capacity	£3,000 per unit
Stamp Duty Land Tax (SDLT)	Prevailing rate based on property value ²

² Please see: <https://www.gov.uk/stamp-duty-land-tax>

Build to Rent (BTR) related costs

- 1.4.3 In the case of BTR development, the cost of rates (less the 10% landlord's discount) should be taken off the gross rents (see Section 1.2.4). This is a cost that is specific to the NI rental sector. BTR housing has been modelled only in the city centre.

Unit Type	Value Band	Rent (£ per month)	Rates (£ per annum)
1-bed flat	CC1	899	1,500
	CC2	852	1,400
2-bed flat	CC1	1,284	2,000
	CC2	1,214	1,930

- 1.4.4 An allowance of 23% of rent is also made in the case of BTR development to allow for maintenance, management and voids.

Other commercial costs

- 1.4.5 A number of additional costs are also calculated in relation to commercial developments.

Type	Cost
Sales and letting	3% of commercial GDV
Purchaser costs	6.8% of commercial GDV

1.5 Cost of Policy compliance

- 1.5.1 It is recognised that policies in the Local Development Plan will affect the value and/or costs of development. The main policies to be considered in this context, alongside the way costs can be modelled for viability purposes are set out in the table below. These policy requirements have been set at a level that ensures most development will be viable.

Policy		Applicable	Cost
Policy HOU5	Affordable Housing	For sites > 5 units or 0.1 Ha Value adjusted for social houses only	At least 20% of units should be modelled as affordable – GDV based on TCIs (see Table 1)

Policy		Applicable	Cost
Policy HOU7	Adaptable and accessible accommodation	10% of units for site > 10 units	Wheelchair accessible space standards used to calculate costs
Policy DES1	Energy efficiencies – 30% reduction in carbon emission	For house	£3,200 per unit
		For apartments	£2,300 per unit
Policy DES2	BREEAM 'excellent' standards	Commercial development only > 1,000m ² or > 1 Ha	2% of additional cost allowance
Policy TRAN 8	Garages	Detached houses only	£8,500 per unit
	Contribution towards travel cards	Within City Centre	£2,640 per unit
		Everywhere else	£530 per unit
Policy OS3	Public Space	For site > 25 units or 1Ha	10% of the total area
		For site > 300 units or 15 Ha	15% of the total area
Other	Local mitigation measures (s76 agreement)	All	£1,000 per unit

Example of additional costs

In our example the proposal contains 30 residential units (15 x 3 bed semi-detached houses, 12 x 2 bed apartments in 3 storey building and 3 x 3 bed terraces) are delivered on a brownfield site of 0.3 ha within Value Band 3. Therefore, the following additional costs would apply:

Policy HOU5 = 6 x 2-bed apartments could be affordable housing (social units or intermediate units) with no additional cost

Policy HOU7 = Additional space on 3 No. 2-bed apartments (5m² per unit)
= 15m² x £1,343 per m² = £20,145

Policy DES1 = 18 houses and 12 apartments = (18 x £3,200) + (12 x 2,300)
= £85,200

Policy DES2 = No commercial element

Policy TRAN8 = Travel cards @ £530 x 30 units = £15,900

Policy OS3 = No additional cost

Other local mitigations (s76) = £1,000 x 30 = £30,000

Total additional costs = £151,245

1.6 Developer return

1.6.1 Although it is acknowledged that the level of return required will vary from scheme to scheme, dependent on the different risk profiles and the stage in the economic cycle, and that overall returns may be balanced by a developer over a number of development sites, it is necessary in the viability assessment process to use a standardised return. Therefore, the assumptions outlined in the table below should be used:

Type of development	Return
Market / Intermediate Housing for Sale units	15% of GDV
Social Rented Housing units	6% of base build cost
BTR scheme / Intermediate Housing for Rent	10% of BTR GDV (for schemes which are forward funded or sold to an institutional investor) 15% of BTR GDV (for debt-based investments)
Commercial use	15% of commercial GDV

Appendix A: Executive summary template

Site Address/Location of development	Brownfield site within Value Band 3
Description of development	30 residential units (15 x 3 bed semi-detached houses, 12 x 2 bed apartments in 3 storey building and 3 x 3 bed terraces) on site of 0.3 ha
Zoning ref. if applicable (see Local Policies Plan)	N/a

Summary of key assumptions in Site-specific Viability Assessment:				
Summary of housing mix (by tenure type and size)				
No. of units	No. of bedrooms / occupants	Size (sq. m)	Type of unit	Tenure
15	3 bed / 5 person	105	Houses	Private sale
6	2-bed / 3 person	69	Apartments	Private sale
3	2-bed / 3 person	69	Apartments	Social / Intermediate Homes for Sale
3	2-bed / 3 person	74	Apartments	Social / Intermediate Homes for Sale (Wheelchair)
3	3-bed / 4 person	97	Houses	Private Sale

Assumption	Amount
A) Development value	
Gross Development Value	£ 6,221,970
B) Land cost	
Benchmark Land Value (including landowner premium)	£ 225,000
C) Construction and development costs	
Construction Costs	£ 3,415,754
Professional Fees	£ 273,260
Marketing and Letting	£ 186,659
Disposal Fees	£ 3,375
Contingencies	£ 341,575
Abnormal costs ³	
Utilities and Sewerage	£ 174,000
SDLT	£ 6,750
Policy compliance	£ 151,245

³ If applicable, please provide details of any abnormal costs that are unique to your development.

Assumption	Amount
_____	£ _____
Total construction and development costs	£ 4,552,618
D) Finance	
Finance Cost	£ 244,181
E) Profit	
Developer Profit	£ 993,295
<i>Profit as a % return</i>	<i>15%</i>
F) = B+C+D+E	Total Costs
	£ 6,015,094
Viability	
Residual land value (headroom)	(A – F) £ 206,876

Please outline how the Key Assumptions published by the Council have informed this planning application.

This should include reference to compliance with the detailed policies noted in Figure 4.6 of the Viability SPG, as well as any broader consequential impacts, such as implications for design details. Where policy requirements are not being met in full, this should include an indication of what provision is proposed.

Scheme meets policy requirements in full, including 6 affordable homes as either social or intermediate homes for sale within the small apartment block, three of which are designed to be wheelchair adaptable in accordance with Policy HOU7 requirements.

Viability appraisal is based on key assumptions set out in this Key Assumptions document.

Continue on separate sheet if necessary