

Economic Viability of Non Housing Land in  
Darlington Borough

For Darlington Borough Council

FINAL PAPER

By Level

July 2010



## Executive Summary

### The Brief

Level Ltd has been appointed to complete a study of the Economic Viability of Non-Housing Land in Darlington Borough on behalf of Darlington Borough Council. The aim of this study is to test the financial viability of developing land for a range of non-housing uses in various locations across the Borough and to provide a robust assessment to determine appropriate planning obligation targets, thresholds and priorities. The Council's brief, issued in May 2010, was to:

- Appropriately test the financial viability of developing land for a range of different non-housing uses in identified sub-areas across the Borough.
- Determine the level of contributions that could be expected from development sites whilst remaining economically viable, for the whole range of market circumstances that may be experienced over a 15 year period from 2011 and:
- Establish the minimum site size or floorspace that can contribute a planning obligation, whilst ensuring the development remains economically viable and consider and conclude on whether this should vary across the Borough.

The Brief requires an assessment of the residual land values for a range of land uses for at least three different defined property market scenarios ("downside", "middle" and "upside") and to calculate the potential level of planning obligation contribution, before the scheme becomes unviable.

### Policy Background

The saved employment land policies from The Darlington Local Plan (with alterations) 2001 form part of the current policy framework, identifying the supply and location of employment sites.

The Local Development Scheme 2009-2012 (August 2009) identifies that the Core Strategy, will be submitted to the Secretary of State in October 2010.

This study will inform the development of the Council's Core Strategy and in particular, the emerging Planning Obligations SPD and to assist in the implementation of the Community Infrastructure Levy or Tariff, should the Council decide to use these methods of securing contributions from developers in the future.

### Methodology

In undertaking this viability assessment, we have assessed the viability of a range of non-housing developments across the Borough using a residual valuation appraisal. This is then used as the base for testing future cost and value scenarios using upside, middle and downside market growth scenarios during the Local Development Framework period. These future assessments take account of changes to property values, inflation, construction, rent and land values over the same timescale.

The assessment considers the viability of a range of notional sites, which were deemed broadly representative of employment sites across the borough. These notional sites were selected in



consultation with the Council and with reference to the Employment Land Review 2009. Stakeholder consultation was also undertaken at a workshop on 6<sup>th</sup> July 2010 on the range of site typologies and densities.

It is important to note that viability assessments of actual developments on specific sites were not undertaken in this study. A summary for each notional development site can be found in Section 5 of this Report.

- Darlington East Employment Area (Yarm Road)
- Town Centre inner ring road
- Heighington Lane Business Park
- South East fringe
- Central Park
- Darlington East Employment Area (McMullen Road)
- Town Centre (south) inner ring road (1)
- Town Centre (south ) inner ring road (2)
- North West Darlington Fringe

It is reasonable to assume that within a Local Authority boundary there will be a variation in rental values and thus gross development value of developments due to the prime or secondary locations, access to road infrastructure etc. The nine notional sites were selected to reflect these differences to ensure that they are broadly representative of potential employment sites which may arise over the lifetime of the Core Strategy. Work was undertaken by Carver Commercial on historical achieved sales values, rents, yields etc.

Build costs have been derived from the Build Cost Information Service with an allowance<sup>1</sup> for BREEAM “very good” standard and demolition costs where appropriate. An allowance<sup>2</sup> for the emerging policy requirement<sup>3</sup> for 10-20% on site provision of renewable or low carbon energy was taken into account in the study but estimated due to the wide variances of possible on site solutions.

## Land Value Assumptions

It is difficult to predict where the commercial market may be in even a couple of year’s time, so long range predictions based on popular commentary are of little use. However, we have assessed value changes based on the historic performance of the market as described previously<sup>4</sup>. This gives us a

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<sup>1</sup> 2% build cost estimated

<sup>2</sup> 2% build cost estimated

<sup>3</sup> Revised Core Strategy Draft Policy CS3

<sup>4</sup> VOA July 2009 regional and local data



view of where values may be in the future if the past market cycle was typical. However, this does not give us the necessary comfort or margin for error should the cycle vary. We have, therefore, reasoned that by choosing scenarios based on an upside, middle and downside view of the market, we will have covered the range of positions to which the market may go. This allows for a range of increasing or decreasing rents versus costs over time.

By reporting on the viability of schemes delivered at different points within this range, we have come to a view of how changes in the market will affect the deliverability and effectiveness of proposed policy. For instance, should the market perform below past trends for the next five years before picking up again, we can assess whether the proposed policy might adversely affect the viability of schemes and, therefore, their delivery. Similar principles apply to a more optimistic view of where values may end up.

The use of the Level methodology allows for variations in land value over time to be accounted for, again ensuring 'future proofing' of the viability study. A planning obligations policy seeks to capture an element of the land value for the community benefit. We know that there is a minimum land value which schemes need to achieve in order to be brought forward, otherwise it becomes more economic for the site to continue in its existing (or alternative) use.

In order to inform the land values that will be used in the assessment of viability, Level has:

- had regard to Valuation Office Agency Data regarding land values;
- sought feedback from stakeholders through the stakeholder workshop;
- engaged Carver Commercial Chartered Surveyors and Commercial Property Consultants to provide information on land values and recent land transactions undertaken in the Borough.

The Valuation Office Agency (VOA) provides data on agricultural land and employment land values. For example, the average value of unequipped arable land with vacant possession in the North East, as at July 2009, was £12,350 per ha. It is likely that Greenfield development land would be traded for commercial use at above the agricultural rate. Thus in respect of development occurring on Greenfield sites, we have inflated the VOA information to account for some further element of 'hope' value. **The benchmarks used are £15,000 per hectare for agricultural land and £170,000 per hectare for industrial land.**

These values will be linked to the future growth assessments as outlined in the Appendices to this report to reflect the relationship between land and property values and ensure effective 'future proofing' of the assessment.

## Key Findings

Comprehensive analysis of the results of all notional schemes assessed can be found in section 5 to 7 of the main report.

The following Table summarises the main findings from the study for the current and projected future viability assessments. We report here on the site appraisals, indicating the range of residual values



derived from speculative and end user build, modest and high density development , with all figures being the per hectare values.

Site	Date	Middle	Upside	Downside
1. Darlington East Employment Area (Yarm Road) – B1 Office use	2010	£174,005 to £516,166		
	2015	£707,383 to £1,210,955	£1,724,555 to £2,466,197	£270,763 to £672,145
	2019	£989,222 to £1,627,462	£3,495,101 to £4,719,844	£67,985 to £490,608
2. Town centre inner ring road – B1 Office use	2010	-£147,090 to £567,999		
	2015	£993,873 to £1,947,808	£3,261,131 to £4,859,450	£20,656 to £830,495
	2019	£1,505,203 to £2,697,006	£7,090,763 to £9,109,574	-£657,835 to £339,552
3. Heighington Lane Business Park – B1 Light Industrial use	2010	-£404,544 to -£174,450		
	2015	-£120,362 to -£42,599	£105,576 to £692,561	-£367,287 to -£194,930
	2019	-£109,414 to £46,247	£422,822 to £1,873,093	-£625,356 to -£285,582
4. South East fringe – B1 Office use	2010	£94,003 to £693,583		
	2015	£1,028,622 to £1,921,755	£2,863,117 to £4,193,355	£241,168 to £946,674
	2019	£1,485,564 to £2,620,684	£6,004,982 to £8,216,943	-£213,303 to £563,331
5. Central Park – B1 Light Industrial use	2010	-£475,664 to -£227,999		
	2015	£39,358 to £2,485,833	£580,503 to £8,085,658	-£229,596 to £31,910



	2019	£67,939 to £3,081,719	£1,344,284 to £16,289,489	-£1,981,757 to -£494,419
6. Darlington East Employment Area (McMullen Road) – Sui Generis uses	2010	Car showroom £236,781 to £577,906 Trade Park £185,109 to £360,578		
	2015	Car - £785,504 to £1,183,726  Trade £481,850 to £686,229	£1,920,485 to £2,351,034  Trade £1,081,001 to £1,301,487	£288,139 to £672,195  Trade £219,294 to £416,615
	2019	Car - £959,719 to £1,440,799  Trade £587,103 to £833, 636	£3,636,689 to £4,194,017  Trade £2,00,262 to £2,284,784	-£66,554 to £385,295  Trade £45,338 to £277,308
7. Town Centre (south) inner ring road – B1 Office use	2010	-£326,003 to £728,819		
	2015	£1,098,497 to £2,253,222	£4,371,814 to £4,479,651	-£335,918 to £877,539
	2019	£1,424,895 to £2,804,105	£9,145,356 to £10,208,452	-£1,534,906 to -£34,507
8. Town Centre (south) inner ring road (extended site) – C1 hotel use	2010	-£363,021 to £272,583		
	2015	£396,106 to £1,120,308	£2,267,192 to £2,928,154	-£423,831 to £437,745
	2019	£577,049 to £1,436,864	£4,990,202 to £5,700,855	-£1,114,827 to -£197,827
9. North West Darlington Fringe – B8 warehouse distribution use	2010	All residual values remain negative in all scenarios throughout the period.		
	2015			
	2019			



## Testing for Planning Obligation contributions

Recognising the Council's commitment to the long term economic vitality of the Borough by ensuring a viable land supply is available for employment generating uses, careful sensitivity testing was carried out to determine the level of planning obligation contribution that could be applied to the notional sites, whilst ensuring the longer term viability of potential development.

The results of the sensitivity testing for planning obligation contributions between £25/sq.m. to £50/sq.m for office, light industrial and warehouse/distribution uses and £750 to £1000 per room for hotel use, for Middle to Downside scenarios are provided within Appendices and are summarised below:

Site	Date	£25/sq.m.	£50/sq.m.
1. Darlington East Employment Area (Yarm Road) – B1 Office use	2010	£126,429 to £459,075	£78,852 to £401,984
	2015	£258,947 to £1,143,185	£162,835 to £1,073,646
	2019	£15,483 to £1,555,718	–£45,647 to £1,481,674
2. Town centre inner ring road – B1 Office use	2010	–£267,933 to £459,010	–£388,095 to £344,095
	2015	–£296,630 to £1,661,250	–£453,713 to £1,507,692
	2019	–£1,005,444 to £2,370,324	–£1,154,872 to £2,202,547
3. Heighington Lane Business Park – B1 Light Industrial use	2010	–£497,158 to - £254,996	–£589,770 to -£335,541
	2015	–£463,615 to £326,008	–£559,924 to £12,190
	2019	- £796,747 to £607,518	–£845,209 to £158,342
4. South East fringe – B1 Office use	2010	–£21,310 to £567,365	–£155,424 to £445,749
	2015	£122,208 to £1,764,702	–£26,245 to £1605,128



	2019	-£391,178 to £2,452,498	-£558,717 to £2,279,222
5. Central Park – B1 Light Industrial use	2010	-£572,300 to - £308,545	-£668,935 to -£389,090
	2015	-£583,808 to £246,994	-£684,290 to £3,682
	2019	-£990,168 to - £7,898	-£1,048,149 to £61,650
6. Darlington East Employment Area (McMullen Road) – Sui Generis uses	2010	Car showroom £136,887 to £481,043	Car showroom – £38,113 to £388,189
		Trade £108,014 to £283,983	Trade £29,628 to £211,669



6. Darlington East Employment Area (McMullen Road) – Sui Generis uses	2015	Car showroom £176,907 to £1,070,104 Trade £133,947 to £597,674	Car showroom £63,071 to £955,933 Trade £43,158 to £508,422
	2019	Car showroom -£174,729 to £1,322,840 Trade -£38,128 to £741,936	Car showroom -£284,754 to £1,203,392 Trade -£126,339 to £648,517
7. Town Centre (south) inner ring road – B1 Office use	2010	-£503,146 to £562,386	-£679,989 to £400,085
	2015	-£565,564 to £2,035,480	-£804,504 to £1,811,498
	2019	-£1,750,766 to £2,574,155	-£1,973,095 to £2,335,807
8. Town Centre (south) inner ring road (extended site) – C1 hotel use	2010	-£433,193 to £210,143	-£457,279 to £186,765
	2015	-£521,326 to £1,030,866	-£555,550 to £997,317
	2019	-£1,204,895 to £1,341,602	-£ 1,236,404 to £1,305,727
9. North West Darlington Fringe – B8 warehouse distribution use	2010	All residual values remain negative in all scenarios throughout the period.	
	2015		
	2019		



## Recommendations and Conclusions

The sensitivity tests carried out by the study identifies the likely range of residual land values of office, industrial, hotel and warehouse/distribution planning uses, before and after the application of planning obligation contributions. These findings are summarised below with a recommended guide for potential planning obligation contributions which could endure in the longer term.

### **Office**

The viability of development is dependent on location, with town centre locations being able to provide higher levels of planning obligation contributions. Viability testing demonstrated that a generic £25/sq.m. planning obligation would be appropriate, across all office sites, but consideration could be given to a contribution up to £50/sq.m. on town centre, end user developments.

### **Industrial**

Viability testing identified negative residual land values, indicating that a planning obligation requirement could make such development unviable. We would thus recommend that no contribution be applied to industrial use.

### **Sui Generis**

Sui generis planning uses such as car showroom and trade park show positive residual values indicating that a planning obligation of at least £25/sq.m. could be appropriate.

### **Hotel**

Speculative hotel development in Darlington in the early years may not occur because of negative residual values. However, end user development is more likely, where positive values are achieved with planning obligations contributions of at least £750/room. We would thus recommend at least £750 contributions may be appropriate.

### **Warehouse/Distribution**

Significant negative residual values are evident in all market scenarios. Therefore we would recommend that no planning obligation requirement be applied to this planning use.

It is important to note that there are significant variations of the residual land values for different planning uses with downside, middle and upside market scenarios, emphasising the need to monitor the actual performance of Darlington's economy and land values over the lifetime of the Core Strategy. This will allow a regular comparison against downside, middle and upside scenarios and to test the viability of the applied planning obligation contribution. This will ensure that viable planning obligation contributions are required which do not frustrate the supply of non housing land.

The notional site testing has considered sites of varying sizes and findings summarised on a per hectare basis. Evidence from Carver Commercial and other stakeholders has identified that in practice, sites are often parcelled into typical 0.4 hectare sites for development. Taking into account local practice and following a review of planning obligation policies across the UK, we would recommend a



0.4 hectare or 500 sq.m. minimum threshold to apply the planning obligation tariff in Darlington.

It is essential that any District wide planning policy requiring planning obligation contributions is not unduly rigid and can be applied flexibly and pragmatically allowing development to come forward whilst meeting the needs of the community. It will be necessary to consider sites on an individual basis having due regard to the planning benefits of granting permission. The framework for enabling such decisions to be made including those of viability should be set out within an SPD.

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## 1.0 Introduction

- 1.1 Levvel Ltd has been appointed to complete a study of the Economic Viability of Non-Housing Land in Darlington Borough on behalf of Darlington Borough Council. The aim of this study is to test the financial viability of developing land for a range of non-housing uses in various locations across the Borough and to provide a robust assessment to determine appropriate planning obligation targets, thresholds and priorities.
- 1.2 The study will inform the development of the Council's Core Strategy, other DPD's, particularly the emerging Planning Obligations SPD and assist in the implementation of the Community Infrastructure Levy or Tariff, should the Council decide to use these methods of securing contributions from developers in the future.
- 1.3 Darlington Borough Council consulted upon the Core Strategy Revised Preferred Options document from January to February 2010. The Local Development Scheme 2009-2012 (August 2009) identifies that the Core Strategy, accompanied by the Local Infrastructure Plan, (published for consultation January 2010) will be submitted for Public Examination in October 2010.
- 1.4 Revised Draft Policy CS4 sets out a policy for planning obligations and the targets, thresholds and priorities for a range of planning obligations will be set out in the forthcoming Planning Obligations SPD, which is due to be published for consultation in Autumn 2010.
- 1.5 Draft Policy CS4 states "Planning obligations will be negotiated to secure the necessary physical, social and environmental infrastructure required as a consequence of development. These will be consistent with national planning guidance and appropriate to the type and scale of development and will be required to mitigate any additional impacts of the development on the locality. The range and level of planning obligations sought will take into account the viability of the development, having regard to any additional unforeseen costs. Where appropriate, standard charges, tariffs and formulae will be applied".
- 1.6 Draft policy CS5 identifies the amount and type of employment land to meet the needs of existing and future economic development. In particular it highlights the need for 235 ha of additional employment land to 2021, with a further 69ha to 2026. A further 125 ha of employment land is to be made available at the key employment locations of Faverdale and Heighington Lane.
- 1.7 Specifically, the Darlington Employment Land Review 2009 identifies site locations for existing and new employment sites for: B1 (a) Offices B1 (b) Research and Development / high tech B1 (c) Light Industrial, B2 General Industrial B8 Warehousing and Distribution.
- 1.8 The Council invited qualified companies to submit tenders in May 2010. The invitation to tender and tender brief is included in the Appendices. This study will form part of the evidence base for the Planning Obligations SPD covering the Darlington Borough Council area. In this regard, Levvel has approached the project in accordance with the requirements of PPS12, Circular 05/05 and the requirements for planning obligations in the Government's Community Infrastructure Levy 2010.



- 1.9 Given the scope of the tender brief and the variations across the Borough in respect of land values and commercial property values, it has been essential to develop a methodology that measures viability on a consistent basis, but that is flexible enough to allow for these variables.
- 1.10 Furthermore, given that the Darlington Core Strategy when adopted will prevail until 2026, we have also ensured that our methodology includes an element of “future proofing” to give the Council the confidence that the policy can be applied now and in years to come.
- 1.11 The study has been carried out against a backdrop of a global recession and generally unfavourable and uncertain conditions in the commercial market. In a rising land and property market where values are increasing and where costs do not rise to the same extent, it can be assumed that if a development scheme is appraised and a viable position achieved, then viability will be achieved in the future, (all other variables remaining the same). Recently, the property market has not behaved in this manner and therefore the future is uncertain. Given this uncertainty in the market, it has been necessary to provide a “future proofed” methodology that makes a range of predictions about where the market may go in the future, ranging from pessimistic to optimistic scenarios, but based on past market trends. With this range set, the results of the development appraisals can be properly contextualised and the Council can set its policy accordingly.
- 1.12 This paper sets out the policy background of the study to place it in its proper context. A commentary on the past and present national, regional and local market experience and wider economic factors is given to inform the future proofing scenarios. Our methodology and assumptions are then explained, and a description of the nature and extent of local stakeholder engagement is undertaken. This is followed by an analysis of the results. Finally, conclusions and recommendations for policy are outlined.



## 2.0 Wider Context of the Study

### National Context

- 2.1 The Community Infrastructure Levy (CIL)<sup>5</sup> regulations came into force on 6th April 2010. CIL is a new local levy that authorities can choose to introduce to help fund infrastructure in their area. CIL is calculated at granting of permission and is paid on implementation. The level of payment is determined by the local charging schedule. Local Authorities prepare a charging schedule, adopted through a forward plan and charges are made against net increases in floor area. CIL affects all development sites and care is needed in assessing the level of infrastructure necessary to enable development, but this should not be so great a burden as to prevent sites coming forward.
- 2.2 Paragraph 14 of the CIL regulations states that:
- ‘In setting rates (including differential rates) in a charging schedule, a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between:
- a. the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
  - b. the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area’.
- 2.3 The regulations make it clear that there will be no duplication of the demands made under CIL and Section 106 agreements. Part 11 sets out a number of limitations on the use of planning obligations. It is now unlawful for a planning obligation to be taken into account when determining a planning application for a development, or any part of a development, that is capable of being charged CIL, whether there is a local CIL in operation or not, if the obligation does not meet all of the following tests:
- (a) necessary to make the development acceptable in planning terms;
  - (b) directly related to the development; and
  - (c) fairly and reasonably related in scale and kind to the development.
- 2.4 Regulation 123 of the CIL regulations also sets out further limitations on the use of planning obligations and states that, ‘this regulation applies where a relevant determination is made which results in planning permission being granted for development’.
- 2.5 Care is needed over timing of permission and interaction of CIL Regulation 123, especially in relation to trigger dates and pooling of section 106 contributions. Regulation 123 also needs to be considered by local authorities when deciding what infrastructure to include in their

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<sup>5</sup> CLG (2010), Community Infrastructure Levy Regulations 2010, TSO, London



charging schedules. Once a charging schedule is in place this regulation prevents double charging by CIL and a section 106 agreement.

## Local Policy, Strategy and Evidence Base

- 2.6 The location of notional sites selected for the study and the proposed type of development for sites reflects the land use policies and priorities set out within the Darlington Local Plan and emerging Core Strategy. Hence the notional sites are broadly reflective of the type of employment sites that will likely be developed within Darlington over the lifetime of the Core Strategy.

## Borough of Darlington Local Plan

- 2.7 The Darlington Local Plan was adopted in 1997, with alterations adopted in 2001. The saved policies from this document are the main policy framework for day-to day consideration of development proposals. Darlington serves as an employment centre for an area extending well beyond the Borough boundaries with a significant net inflow of workers for South Durham and North Yorkshire.
- 2.8 Policy EP1 (Land Supply for Employment) states “provision will be made for a continuous supply of land suitable for a wide range of employment providing activities to attract new employers and meet the employment needs of Darlington and the surrounding area, this should be easily accessible by public transport, cycling or walking<sup>6</sup>”. Activities for which provision need to be made include:
- office, research and development of light industrial activities seeking locations with high standards of amenity and accessibility (e.g. office/business parks);
  - other industrial activities with similar requirements (e.g. ‘prestige industry’);
  - single large industrial users;
  - other industrial, storage and distribution users;
  - activities requiring special transport facilities;
  - small business.
- 2.9 Policy EP2 (Existing Employment Areas) identifies ten existing employment areas where permission will be granted for Business Uses (Use Class B1). General industrial (Use Class B2) and warehousing (Use Class B8) uses will not be permitted where they do harm to the area or nearby residential areas<sup>7</sup>.

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<sup>6</sup> Darlington Borough Council Local Plan 1997 (Incorporating Adopted Alterations 2001), P.86

<sup>7</sup> Ibid, p.87



- 2.10 Policy EP3 (New Employment Areas) identifies 5 new employment areas to ensure that a wide range of sites is available for employment opportunities throughout the plan period. The sites identified are; McMullen Road West (6ha), McMullen Road East (6ha), Yarm Road Industrial Area (56ha), Faverdale Industrial Area (49ha) and Heighington Lane Business Park Extension (14ha)<sup>8</sup>.
- 2.11 Policy EP7 (Office Business Park Development) states that office/ business park development will be permitted in the following areas of employment land:
1. McMullen Road East
  2. Yarm Road Industrial Area
  3. Faverdale Industrial Area
  4. Haughton Road
  5. Heighington Lane Business Park Extension<sup>9</sup>
- 2.12 Policy EP8 states that “Land North of Faverdale close to the A1(M)-A68 Junction will be reserved for development by large industrial users”. This reserve employment site covers an area of approximately 120 hectares. The site is being promoted as a location for inward investment of sub-regional importance, with the potential for bringing major economic and employment benefits to the Darlington Sub- Region<sup>10</sup>.
- 2.13 Policy EP12 sets office development limits and indicates that “class B1 office development will be permitted elsewhere in the Central Area Office Development Limit, the Northgate Fringe Shopping Area, Employment Areas and District Centres unless other uses are proposed or safeguarded<sup>11</sup>”. Policy EP13 also sets out a number of circumstances whereby office development will be permitted outside of the areas covered by EP12.
- 2.14 Plans and policies which previously formed part of the statutory development plan for Darlington Borough, and which the Council did not ask to be saved, expired on 27 September 2007 under the provisions of the Planning and Compulsory Purchase Act 2004. Most of the Local Planning policies have been saved including all policies relating to employment land.

#### Core Strategy Revised Preferred Options January 2010

- 2.15 Darlington Borough Council consulted upon the Core Strategy Revised Preferred Options document from January to February 2010. The Local Development Scheme 2009-2012 (August 2009) identifies that the Core Strategy, accompanied by the Local Infrastructure

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<sup>8</sup> Ibid, p.88

<sup>9</sup> Ibid, p.90

<sup>10</sup> Ibid, p.91

<sup>11</sup> Ibid, p.93



Plan, (published for consultation January 2010) will be submitted to the Secretary of State for Communities and Local Government in October 2010.

- 2.16 Revised Draft Policy CS4 sets out a policy for planning obligations and the targets, thresholds and priorities for a range of planning obligations will be set out in the forthcoming Planning Obligations SPD, which is due to be published for consultation in Autumn 2010. Draft Policy CS4 states "Planning obligations will be negotiated to secure the necessary physical, social and environmental infrastructure required as a consequence of development. These will be consistent with national planning guidance and appropriate to the type and scale of development and will be required to mitigate any additional impacts of the development on the locality. The range and level of planning obligations sought will take into account the viability of the development, having regard to any additional unforeseen costs. Where appropriate, standard charges, tariffs and formulae will be applied<sup>12</sup>.
- 2.17 The Local Development Framework (LDF) needs to ensure a supply of land in sustainable locations to provide for long-term sustainable growth. The Core Strategy Revised Preferred Option has indicated that up to 235ha of general employment land and 125ha of land at Key Employment locations is required up to 2021. However, the following table illustrates that Experian forecasts show a need for 101ha of land during this period, significantly lower than the Core Strategy requirements:

	<b>2009-13</b>	<b>2014-18</b>	<b>2019-26</b>	<b>Average per annum</b>	<b>Total Required 2009-2026</b>
<b>B1 Offices</b>	2.3	9.27	4.5	0.97	17.38
<b>B2 General</b>	5.72	29.95	22.94	3.48	62.61
<b>B8 Distribution</b>	1.57	8.89	9.01	1.20	21.55
<b>Total</b>	<b>9.59</b>	<b>48.11</b>	<b>36.44</b>	5.64	<b>101.54</b>

Summary of Gross Floorspace Requirements (ha) by Industrial Classification<sup>13</sup>

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<sup>12</sup> Darlington Core Strategy: Revised Preferred Option, (2010), p. 43

<sup>13</sup> Ibid, p. 47 [The Council's source is the Experian Forecast for Darlington: October 2009]



2.18 Draft policy CS5 identifies the amount and type of employment land to meet the needs of existing and future economic development. In particular it highlights the need for 235 ha of additional employment land to 2021. The focus of provision will be at:

- b) Darlington Town Centre (Office use) and Town Centre Fringe (Mixed Use) (about 17 ha);
- c) Central Park (Mixed Use) (about 10 ha);
- d) Faverdale (Business, Industrial and Logistics) (about 50 ha);
- e) Lingfield Area (Mixed Use) (about 15 ha);
- f) Morton Palms Business Park Area (Prestige Office Development) (about 11 ha);
- g) Durham Tees Valley Airport (airport related) (about 25 ha)<sup>14</sup>.

#### Darlington Employment Land Review – December 2009

- 2.19 Darlington Borough Council published an Employment Land Review in December 2009. The review will inform the direction of Employment Land Policy within the Core Strategy. Stage 1 of the review examines the “fitness for purpose” of the Employment Land Hierarchy. 46 employment sites were examined which were narrowed down to the most marketable and sustainable.
- 2.20 Stage 2 examined the likely future requirements for employment land and it was found that there is an anticipated demand for 101.5 ha of employment land over the period 2009 to 2026. The portfolio of sites which represents the existing employment land supply within the Borough covers 343.8ha.
- 2.21 Stage 3 sets out the recommended hierarchy of sites to meet future employment needs across the Borough. The following table illustrates the developable area recommended for each employment land type. It is estimated that 12% of net employment land will be delivered within 0-5 years, 42% in 6-11 years and 46% in 11-25 years.

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<sup>14</sup> Ibid, p.50



<b>Employment Land Type</b>	<b>Gross Site Area (ha)</b>	<b>GF Available (ha)</b>	<b>PDL Available (ha)</b>	<b>Net Land Available (ha)</b>	<b>Land Not Currently Available</b>	<b>Total</b>
<b>High Quality Business Parks</b>	12.6	10.83	0	10.83	0	10.83
<b>Prestige Business Locations</b>	249.22	89.54	8.33	97.87	0	97.87
<b>General Industrial/ Business Areas</b>	102.42	11.28	10.2	21.48	0	21.48
<b>Warehouse/ Distribution Parks</b>	186.08	156.36	8.35	164.74	0	164.71
<b>Airport Related General Employment Locations</b>	124.71	24.6	0	24.6	0	24.6
<b>Central Urban Mixed Use Locations</b>	71.12	0	12.953	12.953	14.715	27.668
<b>Suburban Mixed Use Locations</b>	82.84	12.735	0.675	13.41	0	13.41
<b>Total (ha)</b>	<b>828.99</b>	<b>305.345</b>	<b>40.508</b>	<b>345.853</b>	<b>14.715</b>	<b>360.568</b>

Structure of Recommended Employment Land Portfolio<sup>15</sup>

2.22 The research indicates that there is sufficient land supply to meet the employment land needs of different sectors within the Darlington Local Authority area. The majority of sites allocated through the Local plan were found to be functioning well with some fully developed out. The Employment Land Review also recommended a number of new sites be included in the Employment Land portfolio. As illustrated by the previous table there is provision for 360ha of employment land within the emerging Core Strategy.

### Darlington Gateway Strategy – December 2006

2.23 The 2006 Gateway Strategy updates and develops on the original Darlington Gateway Development Framework, produced in 2003 and establishes economic regeneration priorities and key actions in the Borough for the period 2006 to 2020. Before the economic downturn it was estimated that close to 1.1 million sq ft of floorspace (office and industrial) is set to

<sup>15</sup> Darlington Employment Land Review (2009), Darlington Borough Council, p.10



become available in Darlington. At the time the study was produced rental values for office development were approaching £15 sq ft<sup>16</sup>.

- 2.24 The Darlington Gateway has been successful in stimulating the development of new sites within the Borough and significant public and private funding has been drawn into Darlington. The Council seeks to implement a phasing strategy for an Employment Land Portfolio. It is also stated that the Council see the benefit in providing clarity over the preferred use of sites. The proposed strategic approach to phasing is put forward for a number of priority industrial and office development sites. A number of sites have been prioritised, including:

#### **Offices**

- Priority 1 Morton Palms; Central Park
- Priority 2 Parkgate
- Priority 3 Borough Road and Valley Street North

#### **Industrial Distribution**

- Priority 1 Airport North; Faverdale Industrial Estate
- Priority 2 Strategic Faverdale Reserve Site; Remaining land at Yarm Road Industrial Estate
- Priority 3 Yarm Road North; Airport South; Yarm Road South<sup>17</sup>

- 2.25 In relation to office development the Gateway Strategy encourages the development of hybrid office/ workshop units, small office units, standalone pavilion style office units, managed workspace and larger office buildings. The importance of developing supporting infrastructure to support the town centre office market has also been identified.

- 2.26 The Darlington Gateway Strategy identifies a lack of Grade A office accommodation in the town centre. It is proposed that future long term supply will be accommodated at Morton Palms, Central Park and Link 66 (formerly known as Darlington Great Park). The Strategy also states that effective marketing of the town will promote this growth and that the town is well placed to attract larger office occupiers. In December 2006 prime office yields were in the region of 6.5% with rents at a headline of £156.07 sq.m. (£14.50ft<sup>2</sup>).

- 2.27 There is a significant provision of industrial stock in the Darlington Borough. The Gateway Strategy indicates that there is a variety of second hand space in existing industrial areas. There has been some modern development, however, this has mainly been targeted at SMEs

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<sup>16</sup> Darlington Gateway Strategy (2006), Building Design Partnership with King Sturge, Regeneris and CIP, P.ii

<sup>17</sup> Ibid, p.65



and new start up businesses. The majority of development has been under 929 sq.m. with a lack of good quality, modern, larger, industrial units. Darlington is well placed to attract the fledgling distribution market which is predicted to grow in the North East<sup>18</sup>.

### Draft Infrastructure Delivery Plan

- 2.28 Alongside the Core Strategy the Council has published a Draft Infrastructure Delivery Plan (IDP) for consultation. As an integral part of the Core Strategy, it identifies the type of infrastructure required to facilitate the delivery of growth in the Core Strategy, when this will need to happen, who needs to deliver it and how the infrastructure will be funded. The IDP will form a key part of the Core Strategy Evidence Base and will be the mechanism by which delivery can be monitored. The IDP will identify, as far as possible:
- Infrastructure needs and costs
  - Phasing of development
  - Funding sources
  - Responsibilities for delivery.
- 2.29 The IDP contains a Draft Infrastructure Schedule providing a detailed schedule of infrastructure requirements by topic of various types of Infrastructure Provision and identifies potential Delivery Agencies, Costs, Funding Sources, the Status and the likely Phasing.
- 2.30 Contributions secured from residential and non residential development will provide a source of additional funding to secure the infrastructure necessary to support the burden on resources generated by the developments themselves.

### The Wider Economic Picture – Informing the Scenarios

- 2.31 For our analysis of viability to be dynamic, it is important to understand past trends in order to assess how the market may perform in the future. While recent history shows specific characteristics which may be peculiar to the period in question, there are still fundamental principles that suggest medium and long term cyclical trends. This will not inform a single assessment of how the market will perform, but will give us the main parameters within which we can test possible scenarios.
- 2.32 It is important to realise that we are assuming a structurally recurring cycle, intrinsic to the UK commercial market. Our market scenarios are founded on the basis that the patterns of the past will likely be repeated in the future. Our various scenarios attempt to ensure we cover all possible magnitudes of this cycle.

### The Office Market

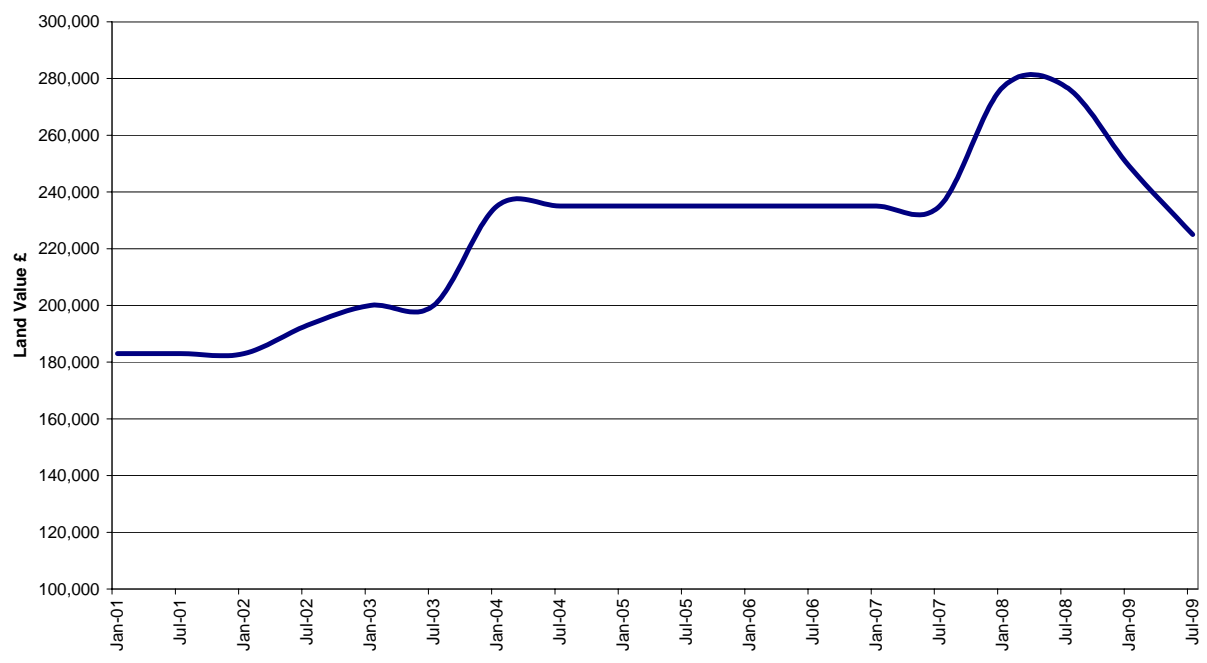
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<sup>18</sup> Ibid, p.15



2.33 The Valuation Office Agency (VOA) provides data on B1 Office land values. The typical value of office land in the North East as at July 2009 was £225,000 per hectare, with a range of between £180,000 to £280,000 per hectare.

TYPICAL LAND VALUES FOR OFFICE DEVELOPMENT ACROSS NORTH EAST  
source: Valuation Office Agency





2.34 The Council's 2008/2009 Annual Monitoring Report indicates there has been a considerable drop in the amount of completed office development when compared to previous years. In 2008/09 151 sq.m. of office development (use class B1a) came forward and this is significantly lower than the previous monitoring year when 6,472 sq.m. of office space was completed.

	2004/05		2005/06		2006/07		2007/08		2008/09	
	Town Centre	Total	Town Centre	Total	Town Centre	Total	Town Centre	Total	Town Centre	Total
<b>Completed Office Development sq.m.</b>	333	2,620	0	840	0	2,500	0	6,472	0	151

**Table: Amount of Completed Office Development (sq.m.)**

2.35 There has also been no town centre office development for the last four monitoring years. However, a number of schemes are planned to enhance the office sector in the town centre and a number of developments are anticipated to provide office space within the Darlington town centre fringe.

### The Industrial Market

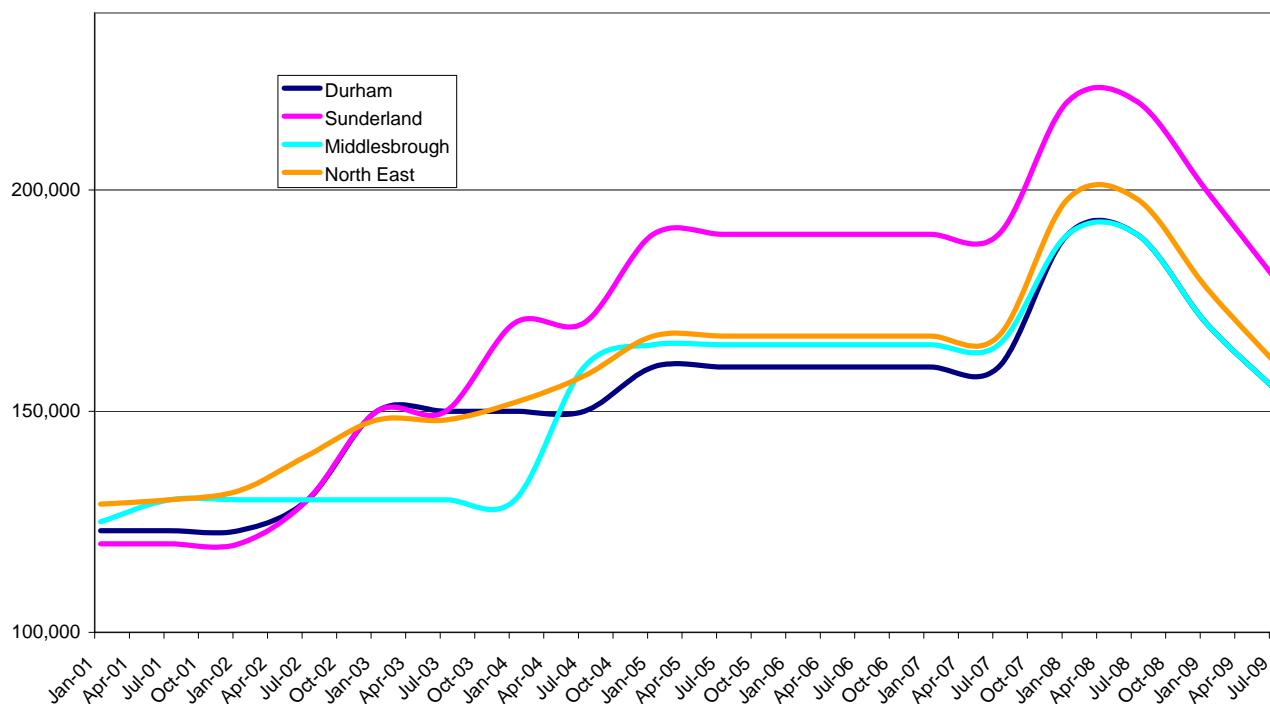
2.36 The proximity of the A1, Teesport and Durham Tees Valley Airport make Darlington an attractive location for industrial occupiers. According to the Gateway Strategy there is a significant supply of older stock in the industrial market with buildings from Darlington's industrial past and many centred around the railway industry. There is also a variety of second hand space in existing industrial areas such as the Faverdale Industrial Estate, Yarm Road Business Park and Yarm Road. However, it has been identified that there is a distinct gap in good quality modern industrial space above 929 sq.m. for occupiers looking to expand their existing businesses located in Darlington<sup>19</sup>.

2.37 According to the latest Valuation Office Agency (VOA) Report in July 2009 the value of industrial land in the North East varies from £227,000/ha for the best sites to £80,000/ha for poorer locations. The following graph illustrates the changes in industrial land values in the North East from Autumn 1986 to July 2009 and it can be seen that industrial land values have fallen by 19% between January 2008 and July 2009.

<sup>19</sup> Darlington Gateway Strategy (2006), Building Design Partnership with King Sturge, Regeneris and CIP, P 14

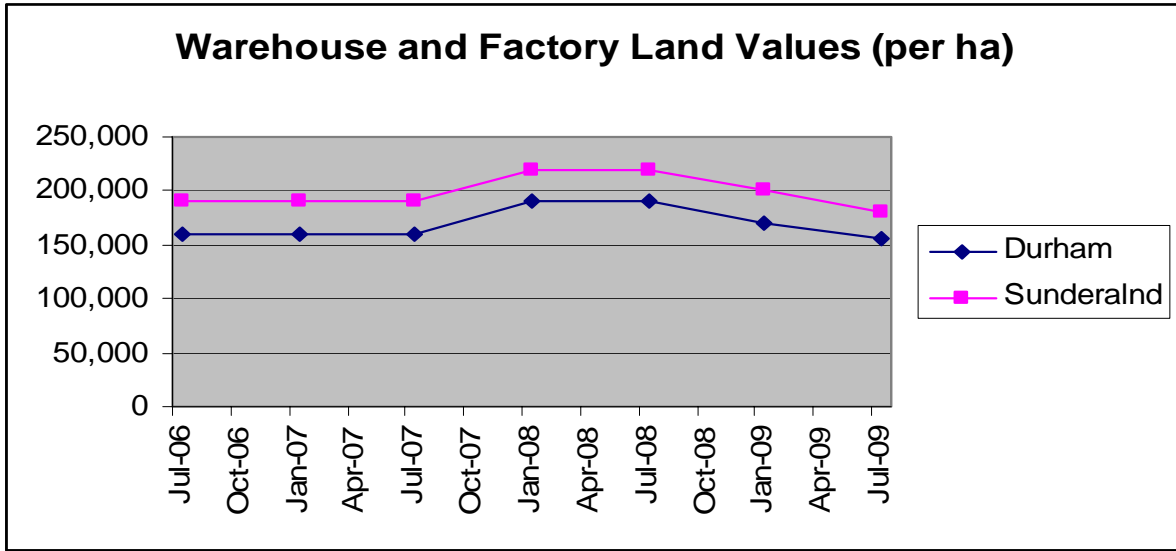


TYPICAL INDUSTRIAL LAND VALUES NORTH EAST 2001 TO 2009



### The Distribution/ Warehouse Market

- 2.38 In recent years decentralisation has occurred in the Borough with a shift to larger outer employment areas from the inner urban area and town centre. The out of centre industrial estates are seen as an attractive location for the distribution industry with access to the national road networks of the A1 and A66.
- 2.39 As noted by the Darlington Gateway Strategy, the Local Authority area is well placed to take full advantage of the developing distribution industry in the North East. Storage and distribution (B8) land uses accounted for 800 sq.m. of the 1,911 sq.m. of employment land completions in 2008/09.
- 2.40 The Valuation Office Agency (VOA) has published land values for the development of warehouse and factories in some of the main industrial areas outside of London. Land values as of July 2009 stood at £155,000 and £180,000 per hectare in Durham and Sunderland respectively. The latest VOA reports dated January 2010 do not include an assessment of warehouse land values. However, the following table illustrates the trend relating to typical B8 land values from July 2006 to July 2009.



### The Hotel Market

- 2.41 The hotel development consultancy Hotel Solutions published the Tees Valley Hotel Futures Report in February 2009. At the time there were 25 hotels within the Darlington Local Authority Area with 1068 bedspaces. Although it is noted that there has been a lack of activity in the building of new hotels the 5 star Rockcliffe Hall Hotel was under construction and has since opened. Although 3/4 star hotel occupancies are reasonably good in the Darlington area it is noted that achieved room rates are relatively low<sup>20</sup>.
  
- 2.42 The Hotel Futures Report also indicates that there is scope for significant budget/ upper budget hotel development in Darlington. However, 3 and 4 star hotels may find it more difficult to remain viable as achieved room rates are relatively low. It has also been noted that the 5 star Rockcliffe Hall Hotel may weaken the potential to attract a 4 star hotel to Darlington.

<sup>20</sup> P.40



## 3.0 Methodology and Assumptions

### Levvel Development Viability Model

- 3.1 The use of viability tools for establishing the viability of residential developments is well established with guidance from the Government. This tool is a residual land value assessment model which suggests that a site will only come forward with a contribution for planning gain and infrastructure where the resulting overall residual site value exceeds the existing or alternative use of that site. Residual land value assessment is a recognised practice within the development industry for evaluating costs and incomes associated with the development. In essence, such appraisals consider the income from a development in terms of sales or rental returns and compare this with the costs associated with developing that scheme. The amount left over, or residual, is what is left for land acquisition, i.e. the residual land value.
- 3.2 The difference between employment land and residential land lies in the fact that housing is usually developed speculatively for general sale, whereas employment land is often developed specifically for a known end user. As such, the risk of development is reduced and hence developer costs, including profits are reduced, allowing potentially a greater residual land value. Conversely, where employment land is built speculatively, the developer requires a larger profit to reflect the higher risk of being unable to rent or sell the completed units and, therefore, the residual land value is lower.
- 3.3 Levvel has developed a dynamic model to determine the residual land value that has been used in negotiation for mixed use development with over 200 local authorities. From this, a toolkit to assess viability on a district wide level has been developed, this is known as the Levvel Development Viability Model (DVM).
- 3.4 Robust assumptions are required to be inputted into this model. Costs to development such as build costs, profit and development finance are arrived at through our experience, strategic alliance with commercial valuers and through consultation with the development industry and Council Officers. Sensitivity testing of variables such as rents, yields and build costs will ensure the validity of the study outputs and demonstrate the impact upon viability across the range of study scenarios.
- 3.5 For a policy to be robust and reliable throughout the plan period, we believe it is necessary to assess with a methodology that is “future proofed” as far as possible. As viability is reliant on the interaction between changing costs and revenues of commercial development over time, it follows that this relationship must be accounted for by future proof testing. It is simply not good enough to assess current costs against a range of property rental values as this provides only a “snapshot” view and, therefore, the relationship between values and costs over time is not taken into account.



- 3.6 Levvel has, therefore, addressed this issue by applying inflation rates for cost inputs throughout the study period<sup>21</sup>. For values, it is difficult to predict where the commercial market may be in even 1 year's time, so long range predictions based on popular commentary are of little use. However, we have assessed value changes based on the historic performance of the market as described previously<sup>22</sup>. This gives us a view of where values may be in the future if the past market cycle was typical. However, this does not give us the necessary comfort or margin for error should the cycle vary. We have, therefore, reasoned that by choosing scenarios based on an upside, middle and downside view of the market, we will have covered the range of positions to which the market may go. This allows for a range of increasing or decreasing rents versus costs over time.
- 3.7 By reporting on the viability of schemes delivered at different points within this range, we have come to a view of how changes in the market will affect the deliverability and effectiveness of proposed policy. For instance, should the market perform below past trends for the next five years before picking up again, we can assess whether the proposed policy might adversely affect the viability of schemes and, therefore, their delivery. Similar principles apply to a more optimistic view of where values may end up.
- 3.8 Levvel's methodology enables the effect of a range of delivery timescales to be taken into account. Thus, all development scenarios selected are tested assuming development start dates of the date of modelling, date of modelling plus 1 year, plus 2 years, plus 3 years, and so on until 2026.
- 3.9 The use of the Levvel methodology allows for variations in land value over time to be accounted for, again ensuring 'future proofing' of the viability study. Any planning obligations policy seeks to capture an element of the land value for the community benefit. We know that there is a minimum land value which schemes need to achieve in order to be brought forward, otherwise it becomes more economic for the site to continue in its existing (or alternative) use.
- 3.10 In order to inform the land values that will be used in the assessment of viability, Levvel has:
- had regard to Valuation Office Agency Data regarding land values;
  - sought feedback from stakeholders through the stakeholder workshop;
  - engaged Carver Commercial Chartered Surveyors and Commercial Property Consultants to provide information on land values and recent land transactions undertaken in the Borough.
- 3.11 The Valuation Office Agency (VOA) provides data on agricultural land and employment land values. For example, the average value of unequipped arable land with vacant possession in

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<sup>21</sup> BCIS Darlington data.

<sup>22</sup> VOA July 2009 regional and local data



the North East, as at July 2009, was £12,350 per ha. It is likely that Greenfield development land would be traded for commercial use at above the agricultural rate. Thus in respect of development occurring on Greenfield sites, we have inflated the VOA information to account for some further element of 'hope' value. **The benchmarks used are £15,000 per hectare for agricultural land and £170,000 per hectare for industrial land.**

- 3.12 These values will be linked to the future growth assessments as outlined in the Appendices to this report to reflect the relationship between land and property values and ensure effective 'future proofing' of the assessment.

### Site Identification Methodology

- 3.13 Using the Darlington Employment Land Review December 2009 as a basis, and in conjunction with the Council, a range of notional development sites likely to represent development over the life of the Core Strategy, (in respect of site size, development floorspace and location) were identified. Site typologies (greenfield or previously developed land) were also assessed in respect of each notional site.
- 3.14 Stakeholder consultation was also undertaken at a workshop on 6<sup>th</sup> July 2010 on the range of site typologies and densities.
- 3.15 Outlined below are the final notional sites identified. It is important to note that viability assessments of actual developments on specific sites were not undertaken in this study. A detailed breakdown for each notional development site can be found in Appendices to this Report.
- Darlington East Employment Area (Yarm Road)
  - Town Centre inner ring road
  - Heighington Lane Business Park
  - South East fringe
  - Central Park
  - Darlington East Employment Area (McMullen Road)
  - Town Centre (south) inner ring road (1)
  - Town Centre (south ) inner ring road (2)
  - North West Darlington Fringe
- 3.16 It is reasonable to assume that within a Local Authority boundary there will be a variation in rental values and thus gross development value of developments due to the prime or secondary locations, access to road infrastructure etc. The nine notional sites were selected to reflect these differences to ensure that they are broadly representative of potential employment sites which may arise over the lifetime of the Core Strategy. Work was



undertaken by Carver Commercial on historical achieved sales values, rents, yields etc.

3.17 The following assumptions<sup>23</sup> have been used:

Use class	Rent/ft2	Yield
B1 Prestige	£12-14	7%
B1 Standard	£10-12	8%
B2	£4.50	9%
B8	£3.00	9%
Car showroom	£7-8	7%
Trade Park	£6-7	9%
C1	£4-5,000pa net/room	6.5%

### Specific Costs of Development – Model Inputs

#### Build Costs

3.18 Base build costs have been assessed with reference to the Build Cost Information Service at the levels set out below. These are per metre square costs for gross internal floor area.

Type of Development	£/sq.m.
<b>B1 Office air conditioned – 1-2 storey</b>	1176
<b>B1 Office air conditioned – 3-5 storey</b>	1381
<b>B1 Office non air conditioned – 1-2 storey</b>	1027
<b>B1 Office non air conditioned – 3-5 storey</b>	1161
<b>B2/B8 industrial/warehouse</b>	508
<b>Sui Gerneris – car showroom</b>	786

3.19 A VOA location factor for Darlington of 0.92<sup>24</sup> has then been applied. We have then applied a contingency figure of 3% as a industry standard to reflect the element of uncertainty in all development projects

<sup>23</sup> Advised by Carver Commercial



- 3.20 To these figures a further sensitivity test of +2% build cost was applied<sup>25</sup> to account for the draft Darlington infrastructure plan requirement that all non residential development should be developed to at least a BREEAM “very good” standard.
- 3.21 We have not determined at this stage the infrastructure costs, ground investigation /contamination/flood risk/crested newt related costs where applicable, as costs are site specific and site sensitive relating to a detailed scheme proposal.
- 3.22 Revised Draft Policy CS3: Promoting Renewable Energy seeks to reduce the impact of new development on the Borough’s energy demand and states that on site provision of decentralised and renewable or low carbon sources of energy, including micro-renewable will be required, unless it can be shown that it is not feasible or viable, to achieve the following standards:
- Strategic locations identified in Policy CS1 (except Darlington Urban area): at least 20% of their energy supply;
  - Major developments (including conversions) of 1000 sq.m. non residential floor space: at least 10% of their energy supply.
- 3.23 After taking advice from stakeholders and agents it is apparent that each development site could address the renewable energy requirements in different ways and, therefore, we have not included at this stage any additional costs that may arise from this requirement.

#### **Other costs of development**

- Charged Interest Rate – 5 %

This is the long term cost of development finance. Whilst the Bank of England Base Rate is currently at 0.5%, developers are not able to access finance at this level. Therefore, a 5% figure has been used.

- Professional Fees – 10% of Build Costs.

Covering architects, consultants engineers fees etc. This is assessed as being 10% of the total build costs.

- Demolition Costs - Information obtained from Durham County Council indicates a figure of £50/sq.m. is applied without asbestos and £75/ sq.m. applied for buildings containing asbestos
- Agents Acquisition Fees – 1.0% of Residual Land Value

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<sup>24</sup> VOA July 2009

<sup>25</sup> “Putting a price on sustainability” BRE Trust 2005



- Site Acquisition Legal Fees – 1.0% of Residual Land Value
- Developer Profit – 20% of build costs has been applied for developers profit in the case of speculative build and 10% where there is an identified end user. In addition, a sensitivity test has been applied of 10% across all sites assuming an identified end user.
- Stamp Duty Land Tax
- Disposal Costs - 2% has been applied for marketing/disposal for speculative build.

#### **4.0 Stakeholder Engagement**

4.1 A stakeholder workshop was held on the 6<sup>th</sup> July 2010. Invitees included land owners, agents and developers.

4.2 The purpose and parameters of the study were presented to the group. Inputs of the study were collectively considered to ensure they reflected industry practice and local norms. In addition, the methodology of the study was examined to ensure that stakeholders both understood the process and were content that it was an appropriate and accepted methodology for testing the viability of non residential sites in Darlington.



## 5.0 Results Analysis

- 5.1 This section sets out the results from each notional development scheme assessed in accordance with the assumptions outlined within this report. We have also tested the implications of potential changes to values and costs over the coming years. It is clearly not possible to predict what will happen over this period but it is possible to assess projections or scenarios based upon cost and value forecasts.
- 5.2 We have looked at the past performance generally in B1, B2 and B8 use and have used these values to test projections of capitals. As far as costs are concerned, we have used forecast indices from the Building Cost Index Service which gives projections up to 2013. BCIS projections suggest that annual build cost inflation will be 1% to 2011, 0.5% to 2012 and 2.5% between 2012 and 2013. The long term average based on past performance between 2001 and 2009 is in the region of 4.5% per annum and we have assumed this figure for the period 2013 to 2019.
- 5.3 We have also taken into account the imposition of BREEAM regulations for sustainability (assumed construction costs at an additional 2%). Although there is an effect on residual values these are not enough to change the general conclusions that we have given in the future positions in the results section that follows. Continual monitoring will need to be undertaken to confirm the true effect of the BREEAM conditions.

### Notional Site 1 – Darlington East Employment Area (Yarm Road)

- 5.4 Summary - Site extending to 8.1 hectares (20 acres). Original buildings circa 17,467.8sq.m. ground floor and 748.4sq.m. first floor have been demolished.
- 5.5 Location - The site is adjacent to Yarm Road Industrial Estate, close to the A66 bypass on the eastern side of Darlington.
- 5.6 Planning – In line with the Council's aspirations, we have assumed that the site will be developed by a prestige development with a high standard of design and landscaping.

#### Viability Test 1

- 5.7 To apply a two storey B1 **17,000sq.m** (reflecting previous build coverage) high quality, speculative build, office development. Reference has been made to the existing Morton Palms development of two storey offices in formulating our test.
- 5.8 Current Position: A residual land value of £1,409,000 for modest density **speculative build** is generated, producing the following potential value capture for planning obligations if previous use is:

Grassland @£15,000/ha x 8.1 ha = £121,500. Surplus £1,287,500

B2 Industrial @£170,000 x 8.1 ha = £1,377,000. Surplus £32,000.



### Viability Test 2

- 5.9 To apply a two storey B1 **20,400 sq.m** higher density, high quality, speculative build, office development.
- 5.10 Current Position: A residual land value of £1,691,000 is generated, generating following value capture for planning obligations if previous use is:
- Grassland @£15,000/ha x 8.1 ha = £121,500. Surplus £1,569,500
- B2 Industrial @£170,000 x 8.1 ha = £1,377,000. Surplus £314,000
- 5.11 Future Position: Residual values in the future will generate increasing positive values at above the rate of inflation in all of the different tests. Even taking into account BREEAM requirements in later years the positive position is likely to be maintained. However, if value inflation increases at only half the annual rate that has applied over the previous five years, then during the later part of the ten year period, residual values will be under pressure (although not negative).

### Conclusion Site 1

- 5.12 Current and future projections show positive residual values in excess of the benchmark land values.

### **Notional Site 2 – Town Centre Inner Ring Road**

- 5.13 Summary - Site extending to 0.97hectares. Original buildings circa 4,293 sq.m. floorspace have been demolished.
- 5.14 Location - The site occupies a prominent town centre fringe location fronting the inner ring road, within a few minutes walking distance of the Railway Station.
- 5.15 Planning – In line with the Council's aspirations ,we have assumed that the site will be developed by a high quality development with a high standard of design within the range of 2-3½ storeys.

### Viability Test 1

- 5.16 To test high quality B1 office development, two/three storeys offices for a modest density **speculative development** with gross internal areas 4,181sq.m. (45,000sq.ft.). The appraisal has referred to an example of a three storey high specification development, at Faverdale Business Park. The subject site being a prominent town centre location a rate per square foot of £13 has been applied in this instance.

Current Position: A residual land value of -£122,000 is generated, generating no value capture for planning obligations.

Future Position: Although the current position shows a negative residual value, when tested against value inflation in line with the past ten years (or higher), positive residual values



are achieved from 2011 onwards. However, if downside inflation (at half the past rate – 2.68% per annum) is applied then positive residual values are only achieved between 2011 and 2015. After that period, residual values return to negative due to .....

#### Viability Test 2

5.17 To apply a three storey prestige B1, 4,181sq.m modest density, **end user**, high quality office development.

5.18 Current Position: A residual land value of £473,000 is generated, generating following value capture for planning obligations if previous use is:

Grassland @£15,000/ha x 0.97 ha = £14,550. Surplus £458,450

B2 Industrial @£170,000 x 0.97 ha = £164,900. Surplus £308,100.

Future Position: Assuming end user then the position over the next ten years is positive even assuming “downside” inflation. However, later in the ten year period, residual values are not likely to keep pace with general land value inflation in the downside assumptions because .....

#### Conclusion Site 2

5.19 End user development generates positive residual values. Viability for speculative build is generally positive but with smaller residual land values against benchmark land values.

### **Notional Site 3 – Heighington Lane Business Park**

5.20 Summary - A greenfield site area of 5.67 hectares (14 acres).

5.21 Location - The site is situated on the edge of Heighington Lane Business Park close to the Darlington/Bishop Auckland Branch railway line and Junction 59 A1(M) via A167.

5.22 Planning - There is no planning/development brief for the site although the site lies within the proposed Amazon Park development and forms part of a 40 hectare development with outline planning permission for B1, B2 and B8 uses

#### Viability Test 1

5.23 To test 1 hectare for B1 light industrial use, providing a modest density **speculative** development of 3,344sq.m. (36,000sq.ft.). Reference has been made to similar developments around Darlington Borough.

5.24 Current Position: A residual land value of -£351,833 is generated, generating no value capture for planning obligations.



Future Position: Under Test 1 the negative residual value is unlikely to become positive at any point in the next ten years even assuming optimistic (say, 10%) value inflation rates. The potential for this type of development to make further contributions to infrastructure in this location appears to be nil.

#### Viability Test 2

5.25 To test 1 hectare site for B1 light industrial use comprising modest density 3,344 sq.m. **end user** development

5.26 Current Position: A residual land value of -£174,000 is generated, generating no value capture for planning obligations.

Future Position: Under test 2 only in the “upside” assumptions (value inflation at 10% per annum and above) will positive residual values be achieved and then only from about 2014 onwards. In all other assumptions (middle and downside), negative residual values are likely to result throughout the projected ten year period.

#### Conclusion Site 3

5.27 Only upside projections will generate sufficient residual land values in the future in excess of benchmark land values.

### **Notional Site 4 – South East Fringe**

5.28 Summary - Overall site area 40.8hectares. However, the test site is 1 hectare. The site is currently undeveloped former agricultural land.

5.29 Location - The site is located between Yarm Road and the A66 on the eastern fringe of Darlington

5.30 Planning - Planning permission was granted for a two storey office building 1,950sq.m. together with garaging and workshop facilities 3,375sq.m. incorporating external storage areas.

#### Viability Test 1

5.31 To test two storey B1 office development providing 4,640sq.m. modest density **speculative** development.

5.32 Current Position: A residual land value of £94,003 is generated, generating following value capture for planning obligations if previous use is:

Grassland @£15,000/ha x 1 ha = £15,000. Surplus £79,000

B2 Industrial @£170,000 x 1 ha = £170,000. Surplus £nil.

Future Position: Assuming value inflation at 5% (and above) over the next ten years, residual values grow each year and the position improves over this period. In our



“downside” position (value inflation at half the rate that has been seen over the last ten years) then residual values become negative towards the end of the ten year period.

#### Viability Test 2

5.33 To test two storey B1 office development providing modest density 4,640sq.m. **end user** development

5.34 Current Position: A residual land value of £577,986 is generated, generating following value capture for planning obligations if previous use is:

Grassland @£15,000/ha x 1 ha = £15,000. Surplus £562,986

B2 Industrial @£170,000 x 1 ha = £170,000. Surplus £407,986.

Future Position: Residual values remain positive in test 2 for the whole of the 10 year period even in “downside” assumptions of values. Therefore, the potential for this type of development to deliver additional infrastructure payments over the next ten years may be maintained.

#### Conclusion Site 4

5.35 Speculative and end user development will generate positive values which in the main will be in excess of the benchmark land values.

#### **Notional Site 5 – Central Park**

5.36 Summary - Site area 3.9 hectares (9.64 acres) incorporating offices, garages and stores together with parking and open storage land. Offices are two storey. Brick buildings including original dwelling which has been converted. Garages brick with pitched tiled roofs.

5.37 Location - Adjacent to Darlington College, the site is situated close to the eastern transport corridor relief road at Haughton Road.

5.38 Planning – Formed part of site with planning consent for mixed use development including residential, B1, hotel and leisure facilities.

#### Viability Test 1

5.39 To test 1 hectare (2.47 acres) for B1 light industrial use. **3,344sq.m.** (36,000sq.ft.) of **speculative** development

5.40 Current Position: A residual land value of -£405,382 is generated, generating no value capture for planning obligations.

Future Position: Although residual value under Test 1 is currently negative, this becomes positive in “middle” and “upside” assumptions (value inflation at 5% or above) from 2011 and beyond. However, in the “downside” position (value inflation at 2.5% per annum) the negative position remains for most of the ten year period. It may be possible that



positive residual values are achieved when construction cost inflation is low but this may only be a temporary position.

#### Viability Test 2

5.41 To test 1 hectare (2.47 acres) for B1 light industrial use, high density, **4,012sq.m**, for **end user**.

5.42 Current Position: A residual land value of -£262,847 is generated, generating no value capture for planning obligations.

Future Position: Under Test 2 the negative residual value position remains under all economic conditions for the whole of the ten year period for which we have projected.

#### Conclusion Site 5

5.43 Only Middle and Upside scenarios will generate residual land value in excess of benchmark land values.

#### **Notional Site 6 – Darlington East Employment Area (McMullen Road)**

5.44 Summary - Previously developed land, history of excavation of landfill. Risk of contamination, potential landfill gas. Visibility and access at present is poor although eastern transport corridor relief (ETCR) road has improved its profile. Considerable land excavation required for both visibility purposes and to make suitable for development.

5.45 Location - The site fronts the ETCR (McMullen) Road affording swift links to A66 bypass

#### Viability Test 1

5.46 To test 1 hectare for sui generis car showroom, **4,273 sq.m** end user development. The showroom development has been modelled on exiting showroom sites in the region.

5.47 Current Position: A residual land value of £577,906 is generated, generating following value capture for planning obligations if previous use is:

Grassland @£15,000/ha x 1 ha = £15,000. Surplus £562,906

B2 Industrial @£170,000 x 1 ha = £170,000. Surplus £407,906

Future Position: Under Test 1, the healthy residual value is maintained for the ten year period under all conditions, including low value inflation assumptions.

#### Viability Test 2

5.48 To test 1 hectare site for sui generis trade park **3,344 sq m** end user development modelled on North Road Industrial Estate and Morton Park Trading Estate (both to the rear of Morrisons Supermarket).



- 5.49 Current Position: A residual land value of £360,578 is generated, generating following value capture for planning obligations if previous use is:

Grassland @£15,000/ha x 1 ha = £15,000. Surplus £345,578

B2 Industrial @£170,000 x 1 ha = £170,000. Surplus £181,578

Future Position: The positive residual position in Test 2 is similar to that in Test 1 throughout the ten year period, even in “downside” conditions.

#### Conclusion Site 6

- 5.50 All current and future projected uses, in downside, middle and upside scenarios, are likely to generate values in excess of benchmark land values.

#### **Notional Site 7 – Town Centre (south) inner ring road**

- 5.51 Summary – The site is 0.85 hectare (2.1 acres). Predominantly two storey of brick construction under pitched roofs with large car parking to rear. Existing building has a gross floor area of 5,464sq.m.
- 5.52 Location - This is a prominent location fronting the inner ring road within the Town Centre Fringe
- 5.53 Planning - The site is within flood risk Zone 2 and within central area office development limits.

#### Viability Test 1

- 5.54 To test the 0.85 ha site for B1 prestigious **speculative** office development with enhanced density up to 200%. 3-4 storey development gross internal area 7,342sq.m. (80,000sq.ft.).
- 5.55 Current Position: A residual land value of- £326,303 is generated, generating no value capture for planning obligations.

Future Position: Our future projections for Test 1 have shown that in “middle” and “upside” value inflation assumptions (annual value inflation of 5% and above) then positive residual values are maintained throughout the ten year period. However, if “downside” assumptions are taken into account then the residual value remains negative for much of the ten year period.

#### Viability Test 2

- 5.56 To test the 0.85 ha site for B1 prestigious office development with enhanced density up to 200%. 3-4 storey **end user** development gross internal area 7,342sq.m.
- 5.57 Current Position: A residual land value of £728,819 is generated, generating following value capture for planning obligations if previous use is:



Grassland @£15,000/ha x 0.87 ha = £13,050. Surplus £715,769

B2 Industrial @£170,000 x 0.87 ha = £147,900. Surplus £588,919

Future Position: For Test 2 the future projections show a very healthy increase year on year at “middle” and “upside “ assumptions (value inflation at 5% per annum and above). If value inflation is at 2.5% then the latter part of the ten year period is likely to produce negative residual values.

#### Conclusion Site 7

- 5.58 End user development generates positive residual values in excess of benchmark land values in all three scenarios. Speculative build may generate positive residual land values in excess of benchmark values in the middle and upside scenarios from 2012 onwards.

#### **Notional Site 8 – Town Centre (south) inner ring road (extended site)**

- 5.59 Summary - Site area 3.096 hectares (7.65 acres). Potential for high profile use.
- 5.60 Location - Properties adjacent to each other. Walking distance of Darlington main line railway station and all town centre amenities, with prominent frontage on inner ring road within the Town Centre Fringe.
- 5.61 Planning – The site is within flood risk Zone 2 and within the central area office development limits.

#### Viability Test 1

- 5.62 To test C1 hotel use. In this regard we have tested 1.2 hectares (3 acres) on the basis of a 100 bed hotel end user facility with one parking space per room. Our appraisal is modelled on the **Premier Inn** and includes three storeys incorporating licensed restaurant facilities. Assume **£4,000pa** net per bed space
- 5.63 Current Position: A residual land value of- £1,133,052 is generated, generating no value capture for planning obligations.

#### Viability Test 2

- 5.64 To test C1 hotel use. In this regard we have tested 1.2 hectares (3 acres) on the basis of a 100 bed hotel end user facility with one parking space per room. Our appraisal is for an **up-market hotel** and includes three storeys incorporating licensed restaurant facilities. Assume **£5,000pa** net per bed space.
- 5.65 Current Position: A residual land value of £272,583 is generated, generating following value capture for planning obligations if previous use is:

Grassland @£15,000/ha x 1 ha = £15,000. Surplus £257.583



B2 Industrial @£170,000 x 1 ha = £170,000. Surplus £102,583

Future Position: While residual values for Test 1 are currently negative, if value inflation rises above 5% per annum then residual values become positive in year 2 or year 3 (depending upon rate of inflation). On the other hand, residual values remain negative in the “downside” market throughout the ten year period.

#### Conclusion Site 8

- 5.66 A budget hotel is unlikely to generate sufficient residual land values in excess of benchmark land values. However, a three star equivalent hotel with greater net bedroom income could derive positive residual land value in some circumstances. Speculative build is unlikely to generate positive residual land values until 2012 onwards and only within the middle and upside scenarios. End user development will generate positive residual land values in excess of the benchmark land values in later years for the downside scenario.

#### **Notional Site 9 – North West Darlington Fringe**

- 5.67 Summary - Total site area 120 hectares (296.5 acres)
- 5.68 Location - Out of town, well positioned adjacent to A1M and on the edge of established B8 occupiers within Faverdale Business Park. The site is situated north of Darlington town centre approximately 3 miles distant, affording convenient access to junction 58 (A1M).
- 5.69 Planning - Within flood risk zone 2 and with a great crested newt site in situ. Greenfield site designated B1, B2, and B8.

#### Viability Test 1

- 5.70 The test is based on B8 warehouse/distribution use which extends to 14 ha (34.6 acres) incorporating 65,560sq.m of **speculative** building (office/distribution).
- 5.71 Current Position: A residual land value of- £1,347,841 is generated, generating no value capture for planning obligations.

#### Viability Test 2

- 5.72 The test is based on B8 use which extends to 14 ha (34.6 acres) incorporating 65,560sq.m. of **end user** building (office/distribution).
- 5.73 Current Position: A residual land value of- £1,109,331 is generated, generating no value capture for planning obligations.
- 5.74 Future Position: In both tests, the considerable negative residual values are unlikely to become positive at any of our inflation assumptions over the next ten years



### Conclusion Site 9

- 5.75 A negative land value is derived in all circumstances from a residual land appraisal. However, market evidence suggests that particular end users may still acquire land at prices reflecting existing use values between agricultural and industrial values.



## 6.0 Summary Results

6.1 The nine notional sites were tested against B1, B2, B8 and C1 uses, where appropriate using industry standard assumptions on rent, yields and costs. The standard assumptions for the viability appraisal for each scheme is:

### 6.2 End user Build

- Rents and Yields – current market rates and future proofed by taking into account historical rent curve.
- Build Costs – BCIS with 3% contingency
- Developer profit - 10%
- Financing Costs – 5% over development programme duration
- Build density – 50% site coverage (modest density) and +20% (high density), unless otherwise indicated.
- Professional fees - 10%
- Acquisition costs – 6%

### 6.3 Speculative build

- Rents and Yields – current market rates and future proofed by taking into account historical rent curve.
- Build Costs – BCIS with 3% contingency
- Developer profit - 20%
- Financing Costs – 5% over development programme duration
- Build density – 50% site coverage (modest density) and +20% (high density).
- Professional fees - 10%
- Acquisition costs – 6%
- Disposal costs - 2%

6.4 A further sensitivity test of +2% build cost was applied to account for the draft Darlington infrastructure plan requirement that all non-residential development should be developed to at least a BREEAM “very good” standard.



- 6.5 We are mindful that there may be current pressures to increase the allowance for profit in response to the specific market conditions that we are currently experiencing. However, it should be noted that the results of our testing at higher profit margins has a significant effect on the viability of schemes. In this case, where specific site constraints and market conditions dictate, the Council may consider the case for higher profit levels to be taken into account. It is our view that, where development viability is a particular issue, the applicant must make a reasonable case for taking into account a higher than normal profit level.
- 6.6 The cost assumptions we have used within this report are based on estimates current at the time of preparing our report. Technological advances in building techniques and general acquaintance with the requirements may bring these costs down and reduce the overall impact.
- 6.7 Four scenarios were tested, namely, end user modest density, end user high density, speculative modest density and speculative high density<sup>26</sup>. The following tables summarises the main findings from the study for the current viability assessments.

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<sup>26</sup> Sites 6-9 did not test speculative or end user high density development



## 6.8 Site Appraisal Results – End User Build Modest Density

Site	Description	Test	Sq.m.	Residual Value
1. Darlington East Employment Area (Yarm Road)	Former industrial site	B1 Office 2 storey development prestige 8.1ha	17,000sq.m.	£3.484m Or £430,000/ha
2. Town Centre Inner Ring Road	Former car showroom /workshops site	B1 Office 2/3 storey development 0.97ha	4,181sq.m.	£473,351
3. Heighington Lane Business Park	Grassland agricultural	B1 light industrial 1ha	3,344sq.m.	-£174,450
4. South East Fringe	Open grassland	B1 2 storey Office 1ha	4,640sq.m.	£577,986
5. Central Park	Offices/garages/stores and yard	B1 light industrial 1ha	3,344sq.m.	-£277,999



6. Darlington East Employment Area (McMullen Road)	Former landfill site	Car Showroom 1ha  Trade-park	4,273sq.m.  3,344sq.m.	£577,906  £360,578
7. Town Centre (south) inner ring road	Offices/ storage	B1 3/4 storey prestige office redevelopment up to 200% enhanced floor area 0.85 ha	7,342sq.m.	£728,819
8. Town Centre (south) inner ring road (extended site)	Offices/storage	C1 100 bed hotel with restaurant/bar facilities 1.2ha	3,250sq.m.	£4,000/bedspace  -£1,133,052  £5,000/bedspace  £272,583
9. North West Darlington Fringe	Greenfield site	B8 use warehouse/distribution 14ha	65,560sq.m.	-£1,109,331



## 6.9 Site Appraisal Results – Speculative Build Modest Density

Site	Description	Test	Sq.m.	Residual Value
1. Darlington East Employment Area (Yarm Road)	Former industrial site	B1 Office 2 storey development prestige 8.1 ha	17,000sq.m.	£1.409, 438 Or £174,000/ha
2. Town Centre Inner Ring Road	Former car showroom /workshops site	B1 Office 2/3 storey development 0.97 ha	4,181sq.m.	-£122,582
3. Heighington Lane Business Park	Grassland agricultural	B1 light industrial 1 ha	3,344sq.m.	-£351,833
4. South East Fringe	Open grassland	B1 2 storey Office 1 ha	4,640sq.m.	£94,003
5. Central Park	offices/garages/stores and yard	B1 light industrial 1ha	3,344sq.m.	-£405,382
6. Darlington East Employment Area (McMullen Road)	Former landfill site	1ha - Car Showroom  Tradepark	4,273sq.m.  3,344sq.m.	£236,781  £185,109

Site	Description	Test	Sq.m.	Residual Value
7. Town Centre (south) inner ring road	Offices/ storage	B1 3/4 storey prestige Office redevelopment up to 200% enhanced floor area 0.85 ha	7,342sq.m.	-£326, 303
8. Town Centre (south) inner ring road (extended site)	Offices/storage	C1 100 bed hotel with restaurant/bar facilities	3,250sq.m.  3 storey 3 acre site area	-£1,754,319  If £5,000/bedspace  -£363,201
9. North West Darlington Fringe	Greenfield site	B8 use warehouse/distribution 14ha	65,560sq.m.	-£1,347,841

6.10 Site Appraisal Results – End User Build High Density

Site	Description	Test	Sq.m.	Residual Value
1. Darlington East Employment Area (Yarm Road)	Former industrial site	B1 Office 2 storey development prestige 8.1 ha	20,400sq.m.	£1.69m Or £208,806/ha
2. Town Centre Inner Ring Road	Former car showroom /workshops site	B1 Office 2/3 storey development 0.97 ha	5,017sq.m.	£568,000
3. Heighington Lane Business Park	Grassland agricultural	B1 light industrial 1 ha	3,845sq.m.	-£200,586
4. South East Fringe	Open grassland	B1 2 storey Office 1 ha	5,568sq.m.	£693,584
5. Central Park	offices/garages/stores and yard	B1 light industrial 1ha	4,012sq.m.	-£262,847

6.11 Site Appraisal Results – Speculative Build High Density

Site	Description	Test	Sq.m.	Residual Value
1. Darlington East Employment Area (Yarm Road)	Former industrial site	B1 Office 2 storey development prestige 8.1 ha	20,400sq.m.	£4.18million or £516,166/ha
2. Town Centre Inner Ring Road	Former car showroom /workshops site	B1 Office 2/3 storey development 0.97 ha	5,017sq.m	-£147,090
3. Heighington Lane Business Park	Grassland agricultural	B1 light industrial 1 ha	3,845 sq m	-£404,545
4. South East Fringe	Open grassland	B1 2 storey Office 1 ha	5,568sq.m.	£110,593
5. Central Park	offices/garages/stores and yard	B1 light industrial 1ha	4,012sq.m.	-£475,665

6.12 The following Table summarises the main findings from the study for the projected future viability assessments. We report here on the site appraisals, indicating the range of residual values derived from speculative and end user build, modest and high density development , with all figures being the per hectare values.

Site	Date	Middle	Upside	Downside
1. Darlington East Employment Area (Yarm Road)	2010	£174,005 to £516,166		
	2015	£707,383 to £1,210,955	£1,724,555 to £2,466,197	£270,763 to £672,145
	2019	£989,222 to £1,627,462	£3,495,101 to £4,719,844	£67,985 to £490,608
2. Town Centre Inner Ring Road	2010	-£147,090 to £567,999		
	2015	£993,873 to £1,947,808	£3,261,131 to £4,859,450	£20,656 to £830,495
	2019	£1,505,203 to £2,697,006	£7,090,763 to £9,109,574	-£657,835 to £339,552
3. Heighington Lane Business Park	2010	-£404,544 to -£174,450		
	2015	-£120,362 to -£42,599	£105,576 to £692,561	-£367,287 to -£194,930
	2019	- £109,414 to £46,247	£422,822 to £1,873,093	-£625,356 to -£285,582

4. South East Fringe	2010	£94,003 to £693,583		
	2015	£1,028,622 to £1,921,755	£2,863,117 to £4,193,355	£241,168 to £946,674
	2019	£1,485,564 to £2,620,684	£6,004,982 to £8,216,943	-£213,303 to £563,331
5. Central Park	2010	-£475,664 to -£227,999		
	2015	£39,358 to £2,485,833	£580,503 to £8,085,658	-£229,596 to £31,910
	2019	£67,939 to £3,081,719	£1,344,284 to £16,289,489	-£1,981,757 to -£494,419
Darlington East Employment Area (McMullen Road)	2010	Car showroom £236,781 to £577,906  Trade Park £185,109 to £360,578		
	2015	Car - £785,504 to £1,183,726  Trade £481,850 to £686,229	£1,920,485 to £2,351,034  Trade £1,081,001 to £1,301,487	£288,139 to £672,195  Trade £219,294 to £416,615
	2019	Car - £959,719 to £1,440,799  Trade £587,103 to £833, 636	£3,636,689 to £4,194,017  Trade £2,00,262 to £2,284,784	-£66,554 to £385,295  Trade £45,338 to £277,308
7. Town Centre (south)	2010	-£326,003 to £728,819		

inner ring road	2015	£1,098,497 to £2,253,222	£4,371,814 to £4,479,651	-£335,918 to £877,539
	2019	£1,424,895 to £2,804,105	£9,145,356 to £10,208,452	-£1,534,906 to -£34,507
8. Town Centre (south) inner ring road - extended site	2010	-£363,021 to £272,583		
	2015	£396,106 to £1,120,308	£2,267,192 to £2,928,154	-£423,831 to £437,745
	2019	£577,049 to £1,436,864	£4,990,202 to £5,700,855	-£1,114,827 to -£197,827
9. North West Darlington fringe	2010	All residual values remain negative in all scenarios throughout the period.		
	2015			
	2019			

## **7.0 Recommendations and Conclusions**

- 7.1 Revised Draft Policy CS4 of the draft Core Strategy sets out a policy for planning obligations and the targets, thresholds and priorities for a range of planning obligations will be set out in the forthcoming Planning Obligations SPD, which is due to be published for consultation in Autumn 2010.
- 7.1.1 The aim of this study is to test the financial viability of developing land for a range of non-housing uses in various locations across the Borough. This evidence base forms a robust assessment to assist the Council in determining appropriate planning obligation contributions that may be appropriate for different planning use classes, whilst ensuring such development remains viable and hence not frustrating the future supply of non housing land.
- 7.2 This study will inform the development of the Council's Core Strategy, other DPD's, particularly the emerging Planning Obligations SPD and may assist the Council in the implementation of the Community Infrastructure Levy or Tariff, should the Council decide to use these methods of securing contributions from developers in the future.
- 7.3 Residual land value viability appraisals have been carried out to ascertain the additional value generated from the granting of a planning consent for B1 (a) Offices B1 (b) Research and Development / high tech B1 (c) Light Industrial, B2 General Industrial B8 Warehousing and Distribution. B1, B2, B8 and C1 use on a number of nominal development sites, reflective of the sites identified within the Darlington Employment Land Review 2009.

### Testing for Planning Obligation contributions

- 7.4 Recognising the Council's commitment to the long term economic vitality of the Borough by ensuring a viable land supply is available for employment generating uses, careful sensitivity testing was carried out to determine the level of planning obligation contribution that could be applied to the notional sites, whilst ensuring the longer term viability of potential development.
- 7.5 The results of the sensitivity testing for planning obligation contributions between £25/sq.m. to £50/sq.m for Office, light industrial and warehouse/distribution uses

and £750 to £1000 per room for hotel use, for Middle to Downside scenarios are provided within Appendices and are summarised below:

<b>Site</b>	<b>Date</b>	<b>£25/sq.m.</b>	<b>£50/sq.m.</b>
1. Darlington East Employment Area (Yarm Road) – B1 Office use	2010	£126,429 to £459,075	£78,852 to £401,984
	2015	£258,947 to £1,143,185	£162,835 to £1,073,646
	2019	£15,483 to £1,555,718	-£45,647 to £1,481,674
2. Town centre inner ring road – B1 Office use	2010	-£267,933 to £459,010	-£388,095 to £344,095
	2015	-£296,630 to £1,661,250	-£453,713 to £1,507,692
	2019	-£1,005,444 to £2,370,324	-£1,154,872 to £2,202,547
3. Heighington Lane Business Park – B1 Light Industrial use	2010	-£497,158 to - £254,996	-£589,770 to - £335,541
	2015	-£463,615 to £326,008	-£559,924 to £12,190

	2019	- £796,747 to £607,518	-£845,209 to £158,342
4. South East fringe – B1 Office use	2010	-£21,310 to £567,365	-£155,424 to £445,749
	2015	£122,208 to £1,764,702	-£26,245 to £1605,128
	2019	-£391,178 to £2,452,498	-£558,717 to £2,279,222
5. Central Park – B1 Light Industrial use	2010	-£572,300 to - £308,545	-£668,935 to - £389,090
	2015	-£583,808 to £246,994	-£684,290 to £3,682
	2019	-£990,168 to - £7,898	-£1,048,149 to £61,650
6. Darlington East Employment Area (McMullen Road) – Sui Generis uses	2010	Car showroom-  £136,887 to £481,043  Trade  £108,014 to £283,983	Car showroom-  £38,113 to £388,189  Trade - £29,628 to £211,669
	2015	Car showroom  £176,907 to £1,070,104	Car showroom  £63,071 to £955,933  Trade

6. Darlington East Employment Area (McMullen Road) – Sui Generis uses	2015	Trade £133,947 to £597,674	£43,158 to £508,422
	2019	Car showroom -£174,729 to £1,322,840  Trade -£38,128 to £741,936	Car showroom -£284,754 to £1,203,392  Trade -£126,339 to £648,517
7. Town Centre (south) inner ring road – B1 Office use	2010	-£503,146 to £562,386	-£679,989 to £400,085
	2015	-£565,564 to £2,035,480	-£804,504 to £1,811,498
	2019	-£1,750,766 to £2,574,155	-£1,973,095 to £2,335,807
8. Town Centre (south) inner ring road (extended site) – C1 hotel use	2010	-£433,193 to £210,143	-£457,279 to £186,765
	2015	-£521,326 to £1,030,866	-£555,550 to £997,317

	2019	-£1,204,895 to £1,341,602	-£ 1,236,404 to £1,305,727
9. North West Darlington Fringe – B8 warehouse distribution use	2010	All residual values remain negative in all scenarios throughout the period.	
	2015		
	2019		

## Recommendations

- 7.6 The sensitivity tests carried out by the study identifies the likely range of residual land values of office, industrial, hotel and warehouse/distribution planning uses, before and after the application of planning obligation contributions. These findings are summarised below with a recommended guide for potential planning obligation contributions which could endure in the longer term.
- 7.7 It is important to note that there are significant variations of the residual land values for different planning uses with downside, middle and upside market scenarios, emphasising the need to monitor the actual performance of Darlington's economy and land values over the lifetime of the Core Strategy. This will allow a regular comparison against downside, middle and upside scenarios and to test the viability of the applied planning obligation contribution. This will ensure that viable planning obligation contributions are required which do not frustrate the supply of non housing land.
- 7.8 The notional site testing has considered sites of varying sizes and findings summarised on a per hectare basis. Evidence from Carver Commercial and other stakeholders has identified that in practice, sites are often parcelled into typical 0.4 hectare sites for development. Taking into account local practice and following a review of planning obligation policies across the UK, we would recommend a 0.4 hectare or 500 sq.m. minimum threshold to apply the planning obligation tariff in Darlington.
- 7.9 It is essential that any District wide planning policy requiring planning obligation contributions is not unduly rigid and can be applied flexibly and pragmatically allowing development to come forward whilst meeting the needs of the community. It will be necessary to consider sites on an individual basis having due regard to the planning benefits of granting permission. The framework for enabling such decisions to be made including those of viability should be set out within an SPD.

### **Office**

- 7.10 The viability of development is dependent on location, with town centre locations being able to provide higher levels of planning obligation contributions. Viability testing demonstrated that a generic £25/sq.m. planning obligation would be

appropriate, across all office sites, but consideration could be given to a contribution up to £50/sq.m. on town centre, end user developments.

**Industrial**

- 7.11 Viability testing identified negative residual land values, indicating that a planning obligation requirement could make such development unviable. We would thus recommend that no contribution be applied to industrial use.

**Sui Generis**

- 7.12 Sui generis planning uses such as car showroom and trade park show positive residual values indicating that a planning obligation of at least £25/sq.m. could be appropriate.

**Hotel**

- 7.13 Speculative hotel development in Darlington in the early years may not occur because of negative residual values. However, end user development is more likely, where positive values are achieved with planning obligations contributions of at least £750/room. We would thus recommend at least £750 contributions may be appropriate.

**Warehouse/Distribution**

- 7.14 Significant negative residual values are evident in all market scenarios. Therefore we would recommend that no planning obligation requirement be applied to this planning use.

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