



# **St Albans District Council Local Plan Viability Study**

## **Strategic Site Testing: East Hemel Hempstead (Central)**

Prepared for  
St Albans City and District Council

September 2024



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# 1 Introduction

St Albans City and District Local Plan 2041 Publication Draft 2023 ('LPPD') sets out a planning framework for the City and District, identifying how much and what type of development is needed and where it should or should not be accommodated. To support the delivery of housing and employment growth over the plan period St Albans City and District Council ('the Council') has identified a number of Strategic Development Sites ('Strategic Sites'). Given the importance of these Strategic Sites to the local growth strategy the Council has instructed BNP Paribas Real Estate to consider their viability in detail.

The National Planning Practice Guidance on Viability 2024 ('NPPG') identifies at paragraph 003 that:

*"Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage".* However, it goes on to identify that *"in some circumstances more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies"*. This is reiterated in paragraph 005 which sets out that, *"it is important to consider the specific circumstances of strategic sites. Plan makers can undertake site specific viability assessment for sites that are critical to delivering the strategic priorities of the plan."*

Accordingly this report outlines the results of the additional high level viability testing undertaken on the East Hemel Hempstead (Central) strategic development site as allocated in the LPPD as site H3.

This report should be read in conjunction with the St Albans Local Plan Viability Study ('LPVS') report dated September 2024, in which we tested the ability of a range of development types throughout the City and District to support the planning policy requirements of the emerging LPPD and other key local policies and guidance as well as national policies.

We have prepared this report with the particular purpose of testing the cumulative impact of the Council's emerging requirements on the identified strategic development site H3 including on-site Section 106 obligations and on-site infrastructure measures. This approach is in line with the requirements of the National Planning Policy Framework 2023 ('NPPF'), the NPPG, the RICS Guidance Note 'Assessing viability in Planning under the National Planning Policy Framework for England (2021)' and the Local Housing Delivery Group guidance 'Viability Testing Emerging Local Plans: Advice for planning practitioners' (June 2012).

This report is structured as follows:

- **Section 2** identifies the details of the strategic site that has been tested;
- **Section 3** details the methodology adopted in this assessment and the inputs to our appraisals;
- **Section 4** outlines the results of our appraisals and considers the implications for the Council's emerging LPPD policies; and
- **Section 5** sets out our conclusions and recommendations.

## 2 Details of Strategic Site

The Council has provided information on the development envisaged at East Hemel Hempstead (Central) as set out in the development requirements of Policy LG1 (a-s) – East Hemel Hempstead (Central) Broad Location in the LPPD. We summarise the development assumptions in Table 2.1.

**Table 2.1 Details of proposed strategic development at East Hemel Hempstead (Central)**

Appraisal Input	Site Specifications
<b>Site Size</b> Gross Net	58.40 Ha 36.19 Ha
<b>Employment Uses</b>	Industrial/Logistics: 26.87 Ha  Business/Research & Development Park: 9.32 Ha
<b>Traveller &amp; Gypsy Pitches</b>	20

## 3 Development Appraisals

### 3.1 Methodology

Our methodology follows standard development appraisal conventions and the standard methodology set out in the NPPG. It is also consistent with the methodology adopted in the LPVS. This study utilises the residual land value ('RLV') method of calculating the value of the indicative development on the East Hemel Hempstead (Central) strategic site. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and policy requirements) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development and guides a developer in determining an appropriate offer price for the site.

We have used *Argus Developer* ("Argus") to undertake the high level appraisal of the indicative development on the East Hemel Hempstead (Central) strategic site. Argus is a commercially available development appraisal package in widespread use throughout the development industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuations. Further details can be accessed at [www.argussoftware.com](http://www.argussoftware.com)

Argus is essentially a cash-flow model. Such models all work on a similar basis:

- Firstly, the value of the completed development is assessed.
- Secondly, the development costs are calculated, including either the profit margin required or land costs. In our appraisals we include profit as a development cost.

As identified above, the difference between the total development value and total costs equates to the RLV. The model is normally set up to run over a development period from the date of the commencement of the project until the project completion, when the development has been constructed and is occupied.

The cash-flow approach allows the finance charges to be accurately calculated over the development period. This approach can accommodate more complex arrangements where a number of different uses are provided or development is phased.

In order to assess whether a development scheme can be regarded as being economically viable, with a given level of planning obligations, it is necessary to compare the RLV that is produced with a benchmark land value ('BLV'). If a development generates a RLV that is higher than the BLV it can be regarded as being economically viable and therefore capable of providing a greater quantum of obligations. However, if a development generates a RLV that is lower than the BLV, it should be deemed economically unviable and the quantum of planning obligations would need to be reduced until viability is achieved.

### 3.2 Appraisal inputs

Our assumptions adopted for the development appraisals of the indicative development on the site are set out in the following sections.

#### 3.2.1 Floor Areas

Following discussions with the Council we have adopted the following floor areas for the employment uses summarised in Table 3.2.1.1.

**Table 3.2.1.1: Employment Uses Floor Areas**

Use	Site area hectares	Site Coverage	Number of Storeys	Floor Area (sq/m)	Floor Area (sq/ft)
Industrial/Logistics	26.87	40%	1	107,480	1,156,904
Business/ Research & Development Park	9.32	40%	4	149,120	1,605,113
<b>Total</b>	<b>36.19</b>	<b>-</b>	<b>-</b>	<b>256,600</b>	<b>2,762,017</b>

### 3.2.2 Commercial Revenue

We have adopted the following rents and yields summarised in Table 3.2.2.1.

**Table 3.2.2.1: Commercial Revenue**

Use	Rent per sq/m	Rent Per Sq/ft	Yield
Industrial/Logistics	£215	£20	5.5%
Business/Research & Development Park	£269	£25	6%

### 3.2.3 Traveller & Gypsy Pitches

The site will deliver 20 Traveller and Gypsy Pitches and we have been advised by the Council that each pitch will cost £242,000 equating to a total cost of £4,840,000.

### 3.2.4 Base Build Costs

We have sourced build costs for the residential schemes from the RICS Build Cost Information Services ('BCIS'), which is based on tenders for actual schemes adjusted to reflect local circumstances in St Albans District. We summarise in Table 3.2.4.1 the base build costs used in our appraisal.

**Table 3.2.4.1 Base Build Costs**

Use	Cost per sq/m
Industrial/Logistics	£750
Business/Research & Development Park	£2,286

In addition to these base costs, we have included an allowance which equates to an additional 10% of the base cost for external works. The allowance included for external works accounts for any additional costs that may be incurred due to the physical nature of the sites plus any works required for landscaping, security enhancement and pavements within the site. Our appraisal also includes a 5% construction cost contingency.

### 3.2.5 Infrastructure Costs

We have been advised by the Council that the infrastructure costs for the site is currently £76,248,570. We have relied upon this figure without verification.

### 3.2.6 Professional Fees

In addition to base build costs, schemes will incur professional fees covering design, valuation, highways and planning consultants and the cost of preparing and submitting the planning application and so on. Our appraisals incorporate a 10% allowance, which is at the higher end of the range for strategic developments.

### **3.2.7 Development Finance**

In line with the LPVS, our appraisal assumes that development finance can be secured at a rate of 6.5%.

### **3.2.8 Marketing, Agency and Legal Costs**

For the commercial units we have allowed for a 10% letting agent and 5% legal fee and we have included a 1% sales agent fee and a sales legal fee of 0.5% of GDV.

### **3.2.9 Acquisition/Purchaser Costs**

Our appraisal deducts Stamp Duty at 5%, acquisition agent's fees at 1%; and acquisition legal fees at 0.8% of residual land value.

### **3.2.10 Section 106 Obligations**

The Council have advised that the site will be subject to a payment for Open Space/SANG at an assumed cost of £40,000 per hectare which equates to a total payment of £792,000.

### **3.2.11 SAMMS and SANG**

Policy SP10 of the LPPD requires contributions towards the Strategic Access Management and Monitoring Strategy (SAMMS) and Suitable Alternative Natural Greenspace (SANG). As this site falls within the Chiltern Beechwoods Special Area of Conservation (CBSAC) Zone of Influence (ZOI) the Council has advised that the travellers and gypsy pitches would be subject to a SAMMS cost of £828.60 per dwelling totalling £16,572.

We highlight that the cost requirement for SANG has been reflected in the S106 calculations summarised in section 3.2.10.

### **3.2.12 Profit**

As identified in the LPVS, Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. The NPPG identifies at para 018 that, *"for the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development."*

Based on our experience of the development of such uses and sites we have adopted a 15% profit on GDV for the commercial uses.

### **3.2.13 Project Programme**

We have assumed that the site would be delivered in 10 phases (115,690 sq/ft of industrial/logistics and 160,511 sq/ft of Business/Research floorspace per phase) over a c. 10.5 year project programme in which each phase assumes 6 month pre-construction (apart from phase 1 which is 12 months), 12 months construction with the sale of the completed units at practical completion of each phase.

## 4 Appraisal Results and Analysis

We have run an appraisal of the strategic development envisaged at East of Hemel Hempstead (Central) as set out in the previous sections and identified within the Council's LPPD. We have then compared the residual land value to the most appropriate BLV identified in the LPVS, which in this instance is the Greenfield value of £370,000 per gross hectare, in order to determine whether this might be sufficient for the strategic site to be brought forward for development.

The appraisals and results are summarised in Table 4.1 below.

**Table 4.1: Appraisal results – East Hemel Hempstead (Central)**

RLV	BLV (based on £370,000 per Ha)	Viable/ Unviable
£79,142,250	£21,608,000	<b>Viable</b>

The appraisal scenario tested for the East of Hemel Hempstead (Central) Strategic Site identifies that the indicative development identified in the LPPD allocation is viable when measured against the BLV of £370,000 per hectare. The residual land value equates to £1,355,176 per gross hectare. In light of this, the Strategic Site is considered to be developable as required by the NPPF i.e. it has a 'reasonable prospect' of being available and viably developed within the plan period.



## 5 Conclusions and Recommendations

This testing demonstrates that the East of Hemel Hempstead strategic site is viable and developable having regard to both the Council's planning policy requirements.

## Appendix 1 - Argus Appraisal Summary

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Development Appraisal

East Hemel Hempstead Central

Report Date: September 20, 2024

**East Hemel Hempstead Central**

Summary Appraisal for Merged Phases 1 2 3 4 5 6 7 8 9 10

Currency in £

**REVENUE**

**Rental Area Summary**

	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Initial MRV/Unit</b>	<b>Net Rent at Sale</b>	<b>Initial MRV</b>
Industrial/Logistics	1	115,690	20.00	2,313,800	2,313,800	2,313,800
Business/Research & Development Park	1	160,511	25.00	4,012,775	4,012,775	4,012,775
Industrial/Logistics	1	115,690	20.00	2,313,800	2,313,800	2,313,800
Business/Research & Development Park	1	160,511	25.00	4,012,775	4,012,775	4,012,775
Industrial/Logistics	1	115,690	20.00	2,313,800	2,313,800	2,313,800
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Business/Research & Development Park	<b>1</b>	<b>160,511</b>	<b>25.00</b>	<b>4,012,775</b>	<b>4,012,775</b>	<b>4,012,775</b>
<b>Totals</b>	<b>20</b>	<b>2,762,010</b>			<b>63,265,750</b>	<b>63,265,750</b>

**Investment Valuation**

<b>Industrial/Logistics</b>						
Market Rent	2,313,800	YP @	5.5000%	18.1818		
(0yrs 11mths Unexpired Rent Free)		PV 0yrs 11mths @	5.5000%	0.9521	40,054,229	
<b>Business/Research &amp; Development Park</b>						
Market Rent	4,012,775	YP @	6.0000%	16.6667		
(0yrs 11mths Unexpired Rent Free)		PV 0yrs 11mths @	6.0000%	0.9480	63,401,060	
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# APPRAISAL SUMMARY

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## East Hemel Hempstead Central

(0yrs 11mths Unexpired Rent Free)		PV 0yrs 11mths @	6.0000%	0.9480	63,401,060
<b>Industrial/Logistics</b>					
Market Rent	2,313,800	YP @	5.5000%	18.1818	
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					<b>1,034,552,882</b>

### GROSS DEVELOPMENT VALUE

**1,034,552,882**

Purchaser's Costs	6.80%	(70,349,596)	
			(70,349,596)

### NET DEVELOPMENT VALUE

**964,203,286**

### NET REALISATION

**964,203,286**

### OUTLAY

#### ACQUISITION COSTS

Residualised Price			79,142,250	
Stamp Duty	5.00%		3,957,112	
Agent Fee	1.00%		791,422	
Legal Fee	0.80%		633,138	
				84,523,923

#### CONSTRUCTION COSTS

Construction	ft <sup>2</sup>	Rate ft <sup>2</sup>	Cost	
Industrial/Logistics	115,690 ft <sup>2</sup>	69.68 pft <sup>2</sup>	8,061,279	
Business/Research & Development Park	160,511 ft <sup>2</sup>	212.37 pft <sup>2</sup>	34,087,721	
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<b>Totals</b>	<b>2,762,010 ft<sup>2</sup></b>		<b>421,490,003</b>	<b>421,490,003</b>

Contingency	5.00%	21,074,500	
Infrastructure		76,248,570	
External Works	10.00%	103,455,288	
Travellers Sites (x 20)		4,840,000	
Open Space (including SANG)		792,000	
SAMMS		16,572	
			206,426,930

#### PROFESSIONAL FEES

Architect	10.00%	42,149,000	
			42,149,000

#### MARKETING & LETTING

Letting Agent Fee	10.00%	6,326,575	
Letting Legal Fee	5.00%	3,163,288	
			9,489,863

#### DISPOSAL FEES

Sales Agent Fee	1.00%	9,642,033	
Sales Legal Fee	0.25%	2,410,508	
			12,052,541

#### FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)			
Total Finance Cost			32,888,122

**East Hemel Hempstead Central**

<b>TOTAL COSTS</b>	<b>809,020,381</b>
<b>PROFIT</b>	<b>155,182,904</b>

**Performance Measures**

Profit on Cost%	19.18%
Profit on GDV%	15.00%
Profit on NDV%	16.09%
Development Yield% (on Rent)	7.82%
Equivalent Yield% (Nominal)	5.81%
Equivalent Yield% (True)	6.02%
IRR	17.10%
Rent Cover	2 yrs 5 mths
Profit Erosion (finance rate 6.500%)	2 yrs 9 mths