

Local Plan & CIL Viability Assessment Report: Key Issues Raised Apr-May '20

1. Background

- 1.1. Fenland District Council is currently preparing a new Local Plan. The Council has commissioned HDH Planning & Development to prepare a viability assessment which will inform the preparation of planning policies in the new Local Plan. In addition, the viability assessment explores the potential for introducing a Community Infrastructure Levy (CIL), which will inform the Council's approach to collecting developer contributions to fund the provision of necessary infrastructure. The Local Plan & CIL Viability Assessment Report is available to view and download from the Local Plan Document Library¹.
- 1.2. In October 2019, the Council consulted representatives of the development industry active in the local area on an 'early draft' version of the viability assessment report. This consultation was launched through a workshop and presentation at Fenland Hall and documents were made available via the Council's website.
- 1.3. The 'early draft' report provided background data about local economic conditions and set out a proposed methodology for assessing viability. This iteration of the report was provided for the purpose of enabling respondents to participate in this first stage consultation.
- 1.4. Responses received during the consultation were reviewed and the methodology updated. The viability assessment was undertaken and the results analysed and summarised in the 'Local Plan & CIL Viability Assessment Report' (Dec 19).
- 1.5. The Viability Assessment Report provides the most up to date available evidence of local market conditions and development viability. The project is considered substantially complete. However, as the Local Plan is at an early stage of its preparation it was expected some aspects relating to development viability may require further exploration to test sites and inform the formulation of planning policies. At present, no decisions have been taken on the content of planning policies. Therefore matters of viability remain under review for the duration of local plan preparation.

2. Purpose

- 2.1. To ensure the approach to assessing development viability remains an iterative one, the Council published the Local Plan & CIL Viability Assessment Report for further consultation in April 2020. Representatives of the local development industry were invited to comment on the viability assessment report's content.
- 2.2. The purpose of this report is to identify the key issues raised during this most recent consultation, and set out the Council's response and proposed course of action.

3. Consultation Responses

- 3.1. During the consultation, a total of five responses were received from the following organisations:

- Home Builders Federation;
- Hix and Son;
- Maxey Grounds;
- Persimmon Homes; and
- Robertson Strategic Asset Management.

¹Available at: <https://fenland.gov.uk/article/14471/Document-Library>

- 3.2. The main issues raised in each response are summarised in Appendix 1. Complete responses are available to download from the document library on the Council's website².

4. Analysis of key issues

Methodology

- 4.1. Three respondents provided comment on and/or disputed various assumptions applied in the viability assessment methodology. One respondent provided especially detailed analysis of the methodology, including adjusting and re-running several financial appraisal models.
- 4.2. It is important to note that the methodology, including the assumptions and data inputs applied, was consulted on in October and November 2019. The justification for the assumptions applied is described in the viability assessment report.
- 4.3. The comments provided on specific assumptions and variables are extensive and require consideration through a comprehensive review of the viability assessment. Therefore this report does not provide comment on these specific aspects of the methodology.
- 4.4. However, if the comments provided by respondents are taken on face value, the net effect would be to increase development costs and reduce forecasted sales values. This would result in development viability being poorer / more marginal than presented in the viability assessment report. However, two respondents supported the outcomes of the Viability Report and provide information confirming their sites are viable and deliverable.

Emerging policy direction

- 4.5. The Local Plan & CIL Viability Assessment Report presents a mixed picture of development viability in Fenland, concluding:

12.100 In simple terms the greenfield sites in the southern part of the District are shown as viable, but greenfield sites in the northern areas and the brownfield sites not viable. This is to be expected, generally the Council is achieving Affordable Housing on greenfield sites but not on brownfield sites. The Council should be cautious about allocating sites in the north of the District or relying on the brownfield sites, (for example within the five-year land supply assessment).

- 4.6. The findings of the viability assessment, and notably the challenges it identifies, have significant implications for the formulation of policy - for example, the types and location of site allocations, the level of policy requirements imposed on new development (such as rates of affordable housing), and the approach to collecting developer contributions to deliver infrastructure (the report identifies 'there is limited scope to introduce CIL').
- 4.7. The Council must balance these findings with other evidence, the requirements of national policy, and the Council's statutory requirements and obligations.
- 4.8. For example in their consultation response, based on their assessment of viability, one respondent recommends the Local Plan adopt an affordable housing requirement for major developments of 0% in the north of the district and 5% in the south of the district. However, such an approach would be incompatible with the National Planning Policy Framework (NPPF) (para. 64) which states that planning policies should expect at least 10% of the homes to be available for affordable home ownership.
- 4.9. Several respondents discussed the challenging market conditions present in Fenland. It is important to note that, whilst development viability may be relatively low in some areas of the district, compared with other areas of Cambridgeshire, this does not absolve the Council from planning to meet the district's development needs through the Local Plan.

² <https://fenland.gov.uk/article/14471/Document-Library>

Current status in decision-taking

- 4.10. One respondent suggested that significant weight should be afforded to the report's findings when determining planning applications now, in advance of adoption of the new Local Plan.
- 4.11. At policy LP5, the Fenland Local Plan (2014) states that the Council will expect to secure affordable housing on the basis of the targets set out in the policy (LP5), *but will negotiate with developers if an accurate viability assessment indicates these cannot be met in full.*
- 4.12. The viability assessment report provides the most up-to-date evidence of development viability available to the Council. It is therefore confirmed that the Council will take account of the viability assessment's findings when determining planning applications. Planning officers and members of the Council's Planning Committee will be issued advice to assist them in taking decisions.

5. Proposed course of action

- 5.1. At the time of writing there are external factors causing considerable uncertainty around future markets and economic conditions. At present, many sectors of the UK and global economy are effectively shut down to curtail the Covid-19 pandemic. The future effects of the pandemic on the market are not known, but may be adverse and long lasting (a wide range of views have been expressed with agents, Knight Frank, suggesting a 3% fall in house prices over the coming year to Lloyds Banks suggesting a 30% fall in prices). In addition, the market may experience changes as a result of Britain leaving the European Union. As the effects of these wider issues become better understood, it will likely be necessary to update the viability assessment to take account of such factors.
- 5.2. The Council commenced the viability assessment at an early stage of Local Plan preparation. The Council is currently preparing other evidence documents to inform the draft Local Plan which will be published alongside the draft Local Plan during the Reg. 18 consultation, which is expected to be held in November and December 2020. For example, a Strategic Housing Market Assessment (SHMA) is currently being prepared which will provide evidence of different types and tenures of housing required across the district. It will be necessary to explore the viability implications of such housing requirements.
- 5.3. The government's planning practice guidance indicates that more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies³. Where the draft Local Plan identifies strategic sites for development the Council intends to provide more detailed assessment of viability relating to those specific sites.
- 5.4. It would therefore not be appropriate to update the viability assessment at the present time due to the current economic uncertainties, and in light of the emerging evidence base and forthcoming draft Local Plan consultation. Furthermore, the NPPF (para. 31) indicates that evidence prepared to inform the Local Plan should be *proportionate*. Updating the viability assessment at the present time would be *disproportionate*, as a further update would likely be required prior to submitting the Local Plan.
- 5.5. If applicants disagree with the content of the viability report they may wish to perform their own site-specific viability assessment, using a recognised assessment model. If submitted as part of a planning application, this will be taken into account when determining the application.
- 5.6. The Council will proceed with consultation on the draft Local Plan (Regulation 18 stage) in November and December 2020 based on the current iteration of the viability assessment report. When drafting the Local Plan document, officers will take account of the findings of the viability assessment report, the current uncertainties in the economy and the market, and the issues raised through this most recent consultation, as well as all other available evidence.
- 5.7. The Council will update the viability assessment, in advance of publishing the proposed submission version of the Local Plan (Regulation 19) to ensure that the draft plan is viable. This update will take into effects the external factors identified above, comments received from respondents on specific aspects of the methodology, and the draft policies set out in the draft Local Plan.

³ PPG 10-003-20180724

Appendix 1: Summary of Consultation Responses

Consultation on Local Plan & CIL Viability Assessment Report April - May 20

Summary of responses received to consultation on draft Viability Assessment report.

Org / date rcvd	Summary of response
Home Builders Federation 04 May 2020	<ul style="list-style-type: none">• Residential values: the limited sales data in some areas, particularly in relation to new build homes, makes it difficult to divide the borough into the high and low value areas suggested in study. Given the stated uncertainty as to the boundaries between high and low value areas we would suggest that a borough wide average of sales would, in these circumstances, be a more appropriate response.• Abnormal costs: The Council have not provided any evidence that the 5% allowance for abnormal costs within the study is appropriate in Fenland and we would suggest, given paragraph 10/012 of PPG makes specific reference to such costs, that evidence as to the past abnormal costs seen on sites in the Borough and surrounding areas is obtained and included in the viability assessment.• Infrastructure costs: Planning obligations equivalent to £2,000 per unit appears too low to deliver infrastructure requirements, especially in relation to larger sites. Should these costs increase there will need to be a reduction in the affordable housing requirement. It is essential that the study includes an evidence-based position as to future infrastructure costs.• Profit margin: Different profit margin levels should be tested to reflect the risks faced by developers delivering large scale development in Fenland's challenging housing market. Without sufficient returns developers will be reluctant to invest in larger sites and the infrastructure required to deliver these sites.• Contingency: Recommends that contingency on larger green field sites is increased. Study fails to recognise that there is an inherent complexity in delivering larger sites that requires contingencies to be more substantial than is proposed in the Viability Assessment. Suggest that as a minimum contingency on larger green field sites is increased to 5%.• Fees: In line with the Harman Review, agents' fees should be between 1% and 2% of land value and legal fees between 0.75% and 1.5% of land value. Recommends that cost assumptions in study are adjusted.

- General: It is important to be cautious with regard to the costs being placed on development in Fenland if the Council wants to ensure sites are delivered.

Hix & Son
24 April 2020

- Confirms that their site at Broad Drove, Tydd St Giles (Site ID 40098) remains suitable for housing development.

Maxey Grounds
04 May 2020

- MG's response includes a written response, and a sample of modified development appraisals.
- Consultation: Report is dated December 2019, disappointed that consultation did not begin until 20th April 2020 and for a period of 2 weeks. Questions why not published for consultation sooner.
- Future market uncertainty: Cites economic costs of Covid-19 restrictions and Brexit as potential risks to future markets. Identifies that land values and development viability as extremely sensitive to changes in house prices. It is essential that all assumptions about values are reviewed and verified in due course when the market is re-established, to ascertain if they remain valid or need adjustment.
- New build premium: Report refers to prices of new build properties being about 23% above those of second-hand homes. It implies a significant new build premium. Lack of evidence of how this new build premium has been determined.
- Table 4.1, sales volumes: Forecasted sales volumes in Table 4.1 should be downgraded in light of RICS comments on negativity in market and global economic projections.
- Unit sizes: The value per sq m assumptions in table 4.7 are skewed by modelling unit sizes greater than the market is providing. Generally, we would expect 2-bed terraced and semi-detached units to be 60 – 70 sq m and 3-bed units to be 85 – 90 sq m. We do not recognise 85 sq m 2-bed semis and 107 sq m 3-bed semis as being representative of the market or appropriate for typologies.

The comment in para 4.45 misrepresents MG's previous consultation submission. At no stage was it suggested that an analysis on a £/sq m basis was not appropriate – just that it could not be applied universally over all sizes, particularly when sizes selected were artificially large when compared with market supply and market requirements.

Table 4.8, creates sales values that exceed the evidence levels submitted by 5% - 10%. This difference as above is because typology sizes selected exceed likely sizes that will be provided by 10%. Disagreement is on the figures produced for GDV because of excessive unit sizes.

- Sales values per sqm (small gfield sites): Table 4.8 shows that increased prices per sq m are used for smaller sites, with a higher value of £2,750 per sq m in the South and £2,500 per sq m in the North. On such sites, properties are often the larger types and evidence suggests generally that values per sq m decrease rather than increase as property sizes increase. The evidence submitted does not justify a premium of £300 per sq m and therefore we do not accept these figures.
- Dwelling size, rented units: The appraisals need to reduce unit sizes to realistic levels on smaller 2/3 bed units and introduce a 3-bed detached of around 100 sq m, which is a mainstay of the development market locally.
- Affordable housing yield: MG's consultation response in November 2019 indicated and evidenced that offers from housing associations reflected yields between 5% and 5.5%, but the assessment continues to capitalise at 4.5%. This introduces an increase on GDV of Affordable units of at least 10% above the levels being experienced. Study lacks justification/evidence for this.
- Affordable housing rate or return: Evidence from specific discussions with Housing Associations is that an internal rate of return of at least 5% is required. On this basis, the use of £1,400 per sq m for affordable rented units is considered too high. It is submitted that around £1,200 per sq m more accurately reflects the level of offers being received for affordable rented in the North and around £1,350 per sq m in the South (para 4.80 refers).
- Shared ownership sales: Generally shared ownership sales are 30% and this is the basis that Housing Associations base their assessments. A level of 68% is appropriate as a percentage of Market Value – but the Market Values applied in that table are excessive because the unit sizes used are larger than the market requires.
- Sheltered housing: 4 of the 5 examples of evidence given of sheltered housing are outside the district and in higher value areas, mostly Huntingdon/Cambridge that are not comparable. Evidence supplied in MG's previous consultation response at The Haven has not been taken into account.
- Non-residential: HDH evidence seems to be drawn from a wider regional basis and lacks analysis of the local market. The assumed values for commercial space are generally significantly overstated, apart from large food retail. Yields also remain optimistically low in many cases.
- Land values: HDH suggest in 6.16 that the price achieved will have been below asking which is incorrect.

We do not accept that there is a significant reduction in value for brownfield land above 1 ha - as this leads to a site of 1.2 ha having

a value below that of 0.9 ha site.

Table 6.4 - All brownfield industrial land should be modelled on the basis of EUV of £250,000 per ha (plus 20% premium to give BLV of £300,000).

- Build costs: The range of other normal costs does not include garages. Our analysis shows that, on the vast majority of sites, detached properties are provided with garages to achieve the prices the analysis shows. Garages are omitted from the list of other normal development costs, and we would suggest this creates an under assessment of the cost of development.
- External works costs: We remain of the view that external costs in appraisals conducted on actual sites, based on actual costs incurred in developments, are running at around 20%, and 15% is not sufficient in most cases
- Finished floor levels: A significant proportion of new developments require Finished Floor Levels to be between 500mm and 1.00m above surrounding ground level.
- Archaeology: Requests Council provide information as to how many sites of 6 or more units have had requests for an archaeological evaluation report as a condition of a consent or in advance of that decision, as a proportion of the number of such consents. Suggests it is becoming a 'standard' requirement i.e. a "normal" abnormal cost.
- S106 cost assumption: It is noted that modelling assumes £2,000 S106 cost per unit. Thus either S106 requests have got to be restricted to £2,000 per unit, or this assessment has to determine the financial surplus available to fund either affordable housing or S106, and then balance as part of policy adoption the division between these two competing public interests. Before adoption as any guidance in decision making, Policy Makers need to determine how they wish to apply the viability results obtained from this study. MG's view is that Cambs County Council will be unlikely to accept £2,000 as a standard request level, given currently it is generally between £10,000 and £20,000 per unit
- Finance interest rates: Development finance is seen by banks as risky and this is reflected in interest rates of around 6.5%. MG remain opposed to the use of 6%.
- SHMA: It is essential that this includes market demand for unit sizes so that modelling follows the configurations likely to be provided by developers which in our experience, from the site-specific studies undertaken over the last 5 years, are generally smaller unit sizes.

- Discounted Market Sales Housing: This type does not appear to have been included in the modelling. MG suggest this type of affordable unit has less cost to the developer, and thus could be a way to increase affordable housing proportion without decreasing viability.
- SUDS: Should not be treated as a general cost, but should be included through an increased assumption for external works costs.
- Biodiversity requirements: Increased allowance for biodiversity requirements appears to be reflected in the use of 16% for large sites and 11% for small sites in the modelling but the text does not make this specific, with 15% still referred to in 7.10. If this adjustment has been made it should be reflected in the text. It is still considered this is not sufficient, with a rate of 20% proposed by MG.
- Density: Suggests the density assumptions are too high, and the effect of overestimating density is that it increases GDV and paints an over optimistic viability picture.
- Bungalow typology: Sizes modelled do not reflect what is likely to be built or market demand.
- Employment uses assumptions: The modelling assumptions for employment uses not relevant to likely development in Fenland. Modelling should be realistic and focus on small site 2-storey offices up to 500 sq m, small industrial up to 1,000 sq m and larger warehousing of 2,500 sq m.
- Revised development appraisal models: MG has amended a sample of development appraisal models using their amended assumptions discussed above.

In all cases, MG's modelling produces lower Residual Land values.

- Suggested affordable housing targets: In the northern area affordable dwellings cannot realistically be provided and thus a target of 0% should be set. In the southern area, the affordable housing policy requirement should be 5%. The Council should consider retaining policy for a contribution in lieu of affordable housing on sites generating fewer than 10 affordable units.

**Persimmon
Homes
01 May 2020**

- Revenues: We note the limited number of samples considered in Table 4.3 (Prices Paid – New Build Homes) is inflating revenue beyond that which we consider realistic.

In March, for instance, the average size of the two detached units considered is 117 sq m or 1,259 sq ft. The average sales price is stated to be £302,500. Our own market research and knowledge of the area indicates a return for a property of a comparable size in

the March area to be significantly below £300,000.

Persimmon would expect to see an average price per sq m to be lower in March than in Whittlesey, due to Whittlesey's proximity to Peterborough and stronger market (evident from greater housebuilder activity), but the March figure is significantly higher.

- North/south areas: Persimmon considers the north/south divide to be artificial, as the study indicates the division is “fuzzy” and the data not wholly consistent. Persimmon recommends a blended district-wide figure per sq m should be used, informed by a greater variety of market evidence derived from across Fenland. Suggesting for example, that evidence could be drawn from the second-hand market to compensate for the lack of new build samples.
 - Prices achieved versus asking price: Persimmon does not agree with the commentary in paragraphs 4.37 and 4.38 in relation to prices achieved versus asking prices. The evidence suggests a much wider discrepancy between the two than 2.5%.
 - Developer's profit: Development on large greenfield sites with complex infrastructure and phasing requirements particularly in a weak market like Fenland is a particularly risky prospect. Persimmon suggest it would be more appropriate to consider developer return in light of the risk associated with various site typologies rather than using a district-wide figure.
 - Contingency: Persimmon indicate that larger-scale greenfield sites with intricate infrastructure and phasing requirements carry a significant degree of a risk, particularly where the market is weak, therefore require a greater contingency than a typical greenfield site than that which has been allowed for.
 - Abnormal costs: In summary the report's position is that abnormal costs will be reflected in the land value and that sites which are less expensive to develop will command a premium price over and above those that have abnormal cost. This approach is concerning because it does not factor in the abnormal infrastructure costs which will typically be associated with bringing forward large greenfield sites such as spine roads and off-site infrastructure works. The approach to abnormal costs should be re-examined in this context.
 - External works: Persimmon contend that assumption for external works of 15% of build costs is too low for larger greenfield schemes and the figure used should be closer to 20%.
 - Planning obligations: The £2,000/unit figure used has been carried forward from a 2014 report. The Council cannot rely on evidence that is over 6 years out of date.
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- Fees: Harman Review that agents' fees will be between 1% and 2% of land value and legal fees between 0.75% and 1.5% of land value. Persimmon recommend these figures are applied.

Robertson
22 April 2020

- Concurs with HDH findings and consider its recommendations present a sustainable way. Suggests significant weight should be afforded to the report's findings when determining planning applications now for new homes in advance of the preparation and adoption of a new local plan for Fenland.