

Fenland District Council

Viability Note – May 2022

1. HDH Planning & Development Ltd produced the *Local Plan & CIL Viability Assessment* (HDH, December 2019). This had three main elements:
 - a) Review of Affordable Housing policy within the District (including tenure split).
 - b) Whole plan viability to consider all other standards and policy requirements.
 - c) To consider the scope for Community Infrastructure Levy (CIL).
2. The report was carried out to meet the requirements of the NPPF and in accordance with the PPG and RICS Guidance. It was subject to public consultation.
3. Since 2019 the costs and the values, being the main inputs into a viability assessment, have changed and several changes have been made to national policy. The Council has also refined several of its emerging policies.
4. This brief note considers how these changes may impact on viability and whether it is necessary for the Council to fully update the viability evidence before proceeding with the Regulation 18 consultation.

Changes in Residential Values

5. Much of the data in the 2019 Viability Assessment was gathered in the summer of 2019. Since then, house prices have increased. There are a range of data sources that can be referenced, however the Land Registry is the most complete.

Table 1 Change in Average House Prices				
	Fenland	Cambridgeshire	East of England	England & Wales
2019-08	£185,943	£294,580	£290,519	£244,678
2022-02	£231,447	£347,036	£345,652	£290,904
Change	£45,504 24.5%	£52,456 17.8%	£55,133 19.0%	£46,226 18.9%

Source: Land Registry (May 2022)

6. This data shows that average prices have increased by about 24% in Fenland, which is somewhat more than in wider Cambridgeshire and region. This data can be disaggregated and newbuild sales separated out.

Table 2 Change in Average Newbuild House Prices – Fenland		
	Newbuild	Existing
2019-08	£224,292	£185,024
2021-12	£299,998	£228,194
Change	£75,706 33.8%	£43,170 23.3%

Source: Land Registry (May 2022)

7. According to the Land Registry, average newbuild sale price has increased by about 34% over the last 3 or so years in Fenland. This is somewhat more than the average increase of existing homes.
8. The 2019 Viability Assessment was completed before the COVID-19 pandemic, however there was uncertainty in the market due to Brexit, at that time. COVID-19 added further uncertainty and a range of views as to the impact on house prices have been expressed that cover nearly the whole spectrum of possibilities. HM Treasury brings together some of the forecasts in its regular *Forecasts for the UK economy: a comparison of independent forecasts* report.

Table 3 Consolidated House Price Forecasts

Table 2 - 2022: Growth in prices and monetary indicators (% change)

Forecasters and dates of forecasts		CPI (Q4 on Q4 year ago, %)	RPI (Q4 on Q4 year ago, %)	Average earnings	Sterling index (Jan 2005=100)	Official Bank rate (level in Q4, %)	Oil price (Brent, \$/bbl)	Nominal GDP	House price inflation (Q4 on Q4 year ago, %)
City forecasters									
Bank of America - Merrill Lynch	Oct	3.1	3.9	-	-	0.25	-	-	-
Barclays Capital	Apr *	7.7	10.1	-	-	1.00	100.0	-	-
Bloomberg Economics	Feb	5.0	-	-	-	1.00	-	-	-
Capital Economics	Apr *	7.1	9.6	5.1	82.5	1.25	100.0	-	7.5
Citigroup	Feb	5.0	5.8	4.4	-	1.00	-	-	5.6
Credit Suisse	Mar	7.7	-	-	-	1.25	-	-	-
Daiwa Capital Markets	Feb	4.6	-	4.0	85.0	1.25	85.0	-	5.0
Deutsche Bank	Dec	3.1	5.0	-	-	0.50	-	-	-
Goldman Sachs	Mar	8.3	-	-	-	1.75	125.7	6.9	-
HSBC	Apr *	8.3	10.2	4.5	-	1.50	-	-	-
JP Morgan	Sep	2.2	-	-	-	0.25	-	-	-
Morgan Stanley	Dec	2.7	3.9	-	-	0.75	-	-	-
Natwest Markets	Apr *	7.4	9.7	4.7	81.0	1.25	98.0	7.5	-
Nomura	Dec	3.3	-	-	-	1.00	-	-	-
Pantheon	Mar	7.6	9.0	5.2	-	1.00	-	-	4.5
Schroders Investment Management	Dec	1.6	3.5	3.5	-	0.50	-	9.2	2.2
Societe Generale	Dec	2.6	4.2	4.4	-	1.00	-	8.9	-
UBS	Apr *	6.0	8.0	4.8	-	1.00	-	6.9	-
Non-City forecasters									
British Chambers of Commerce	Mar	6.5	-	-	-	1.00	-	-	-
Beacon Economic Forecasting	Apr *	8.9	10.4	4.9	83.2	1.25	99.8	12.6	7.6
CBI	Apr *	-	-	-	-	-	-	-	-
CEBR	Apr *	7.1	7.5	4.3	82.9	1.17	-	-	-1.1
Economic Perspectives	Sep	4.5	5.3	5.5	77.0	0.25	55.0	7.5	2.0
Experian Economics	Mar	8.3	10.9	5.0	88.9	0.75	108.0	3.5	1.2
EIU	Mar	4.8	-	-	-	1.25	82.1	8.1	-
Heteronomics	Apr *	7.9	10.3	4.7	82.2	1.50	110.7	-	2.0
ITEM Club	Apr *	5.8	7.1	4.2	-	1.00	-	-	3.5
Kern Consulting	Feb	4.4	-	4.2	-	1.25	90.0	-	-
Liverpool Macro Research	Mar	5.1	-	4.7	78.2	1.00	-	-	-
NIESR	Feb	4.7	8.8	4.8	-	1.18	-	-	0.4
Oxford Economics	Apr *	6.2	8.4	4.8	81.7	1.00	101.2	7.3	6.0
OECD	Dec	4.4	h	-	-	-	-	-	-
IMF	Apr *	7.4	h	-	-	-	-	-	-
Average of forecasts made in the last 3 months (excludes OBR forecasts)									
Independent		6.6	9.0	4.6	82.8	1.16	100.0	7.5	3.8
New (marked *)		7.2	9.1	4.7	82.2	1.19	101.6	8.6	4.3
City		6.8	8.9	4.7	82.8	1.20	101.7	7.1	5.6
Range of forecasts made in the last 3 months (excludes OBR forecasts)									
Highest		8.9	10.9	5.2	88.9	1.75	125.7	12.6	7.6
Lowest		4.4	5.8	4.0	78.2	0.75	82.1	3.5	-1.1
Median		6.8	9.3	4.7	82.5	1.17	100.0	7.3	4.5
OBR	Mar	8.7	11.0	6.0	82.5	1.1	94.0	6.7	4.3

Source: Forecasts for the UK economy: a comparison of independent forecasts No 417 (HM Treasury, April 2022).

9. Generally, these show house prices will continue to increase.
10. Property agents Savills are forecasting the following changes in house prices:

Table 4 Savills Winter 2021 Property Price Forecasts						
	2022	2023	2024	2025	2026	5 Year
Mainstream UK	3.5%	3.0%	2.5%	2.0%	1.5%	13.1%
East of England	3.0%	2.5%	2.0%	1.5%	1.0%	10.4%
Prime Regional	4.0%	3.5%	3.0%	3.5%	4.0%	19.3%

Source: Savills UK Residential – Residential market forecasts (Winter 2021)¹

11. In this context is relevant to note that the Nationwide Building Society reported as follows in April 2022:

House price growth slows in April but remains in double digits

- Annual UK house price growth slowed modestly to 12.1% in April, down from 14.3% in March
- Prices up 0.3% month-on-month after taking account of seasonal effects
- Poll reveals 38% actively moving or considering move

12. Similarly, the Halifax Building Society reported (March 2022):

UK house prices rise steeply to reach new record high, as market maintains momentum

- Monthly house price growth of 1.4% the biggest increase for six months
- Average property price reaches another new record high of £282,753
- Two years on from the first lockdown, house prices have now risen by £43,577
- South West overtakes Wales as UK area with strongest house price inflation
- Cost of living pressure likely to slow the rate of house price growth this year

13. There is clearly uncertainty in the market, and the very substantial growth reported over the last few years seems unlikely to continue.

Changes in Development Costs

14. In the 2019 Viability Assessment the build costs were derived from the BCIS data. The cost figure for Cambridgeshire for 'Estate Housing – Generally' was £1,281/m² at that time (3rd August 2019). The equivalent figure has now (2nd May 2022) has increased to £1,323/m². This data shows that the cost of construction has increased by just over 3% over the last 3 or so years in Cambridgeshire.
15. There has been much coverage in the national press around increased inflation. The BCIS is predicting that the General Build Cost Index will increase by about one percent (from May 2022 – 425.0 to April 2023 – 428.1) over the next year and by about 7% (from May 2022 – 425.0 to April 2025 – 454.9) over the next three years.

¹ [Savills UK | Residential property forecasts - Winter 2021](#)

Changes in National Policy

16. There have been a number of changes at a national level since the Council's existing viability work.

First Homes

17. In February 2020, the Government launched a consultation on First Homes. The outcome of this was announced in May 2021.

What is a First Home?

First Homes are a specific kind of discounted market sale housing and should be considered to meet the definition of 'affordable housing' for planning purposes. Specifically, First Homes are discounted market sale units which:

- a. must be discounted by a minimum of 30% against the market value;*
- b. are sold to a person or persons meeting the First Homes eligibility criteria (see below);*
- c. on their first sale, will have a restriction registered on the title at HM Land Registry to ensure this discount (as a percentage of current market value) and certain other restrictions are passed on at each subsequent title transfer; and,*
- d. after the discount has been applied, the first sale must be at a price no higher than £250,000 (or £420,000 in Greater London).*

First Homes are the government's preferred discounted market tenure and should account for at least 25% of all affordable housing units delivered by developers through planning obligations.

PPG: 70-001-21210524

18. Intermediate housing was assumed to have a value of 60% of market value in the 2019 Viability Assessment. The introduction of First Homes is unlikely to impact on viability.

Environmental Standards

19. Early in October 2019, the Government launched a consultation on 'The Future Homes Standard'². This is linked to achieving the 'net zero' greenhouse gas emissions by 2050. The outcome of the consultation was announced during January³ 2021. Subsequently Part of Building Regulations were updated to align with Option 2 of the Future Homes Standard Option 2 (31% CO₂ saving).
20. As set out in the 2019 Viability Assessment, there are a wide range of ways of lowering the greenhouse gas emissions on a scheme, although these do alter depending on the nature of the specific project. These can include simple measures around the orientation of the building, and measures to enable natural ventilation, through to altering the fundamental design and construction.

² https://www.gov.uk/government/consultations/the-future-homes-standard-changes-to-part-l-and-part-f-of-the-building-regulations-for-new-dwellings?utm_source=7711646e-e9bf-4b38-ab4f-9ef9a8133f14&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

³ [The Future Buildings Standard - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/the-future-buildings-standard)

21. The Department of Levelling up, Communities and Housing, published the latest revision to *Conservation of Fuel and Power, Approved Document L of the Building Regulations* as a 'stepping stone' on the pathway to zero carbon homes. It sets the target of an interim 31% reduction in CO₂ emissions over 2013 standards for dwellings. The changes will apply to new homes that submit plans after June 2022 or have not begun construction before June 2023. It is assumed to apply to all new homes in this assessment.
22. The costs will depend on the specific changes made and are considered in Chapter 3 of the 2019 Government Consultation⁴. These costs would add about 3% to the base cost of construction.
23. It is timely to note that building to higher standards that result in lower running costs does result in higher values⁵.
24. EV Charging facilities are now a requirement (from 25th June 2023) of Building Regulations (Approved Document S):
- S1. (1) *A new residential building with associated parking must have access to electric vehicle charge points as provided for in paragraph (2).*
- (2) *The number of associated parking spaces which have access to electric vehicle charge points must be—*
- (a) *the total number of associated parking spaces, where there are fewer associated parking spaces than there are dwellings contained in the residential building; or*
- (b) *the number of associated parking spaces that is equal to the total number of dwellings contained in the residential building, where there are the same number of associated parking spaces as, or more associated parking spaces than, there are dwellings.*
- (3) *Cable routes for electric vehicle charge points must be installed in any associated parking spaces which do not, in accordance with paragraph (2), have an electric vehicle charge point where—*
- (a) *a new residential building has more than 10 associated parking spaces; and*
- (b) *there are more associated parking spaces than there are dwellings contained in the residential building.*
25. A cost of £976/unit⁶ would be typical.
26. This was tested in the 2019 Viability Assessment and was assumed to apply.

⁴ The Future Homes Standard 2019 Consultation on changes to Part L (conservation of fuel and power) and Part F (ventilation) of the Building Regulations for new dwellings (MHCLG, October 2019).

⁵ See *EPCs & Mortgages, Demonstrating the link between fuel affordability and mortgage lending* as prepared for Constructing Excellence in Wales and Grwp Carbon Isel / Digarbon Cymru (funded by the Welsh Government) and completed by BRE and *An investigation of the effect of EPC ratings on house prices* for Department of Energy & Climate Change (June 2013.)

⁶ Paragraph 9 Electric Vehicle Charging in Residential and Non-Residential Buildings (DfT, July 2019).

Biodiversity

27. The Environment Act received Royal Assent in November 2021 and mandates that new developments must deliver an overall increase in biodiversity. The requirement is that developers ensure habitats for wildlife are enhanced and left in a measurably better state than they were pre-development. They must assess the type of habitat and its condition before submitting plans, and then demonstrate how they are improving biodiversity – such as through the creation of green corridors, planting more trees, or forming local nature spaces.
28. This requirement was tested in the 2019 Viability Assessment.
29. To recap, the requirement is that developers ensure habitats for wildlife are enhanced and left in a measurably better state than they were pre-development. They must assess the type of habitat and its condition before submitting plans, and then demonstrate how they are improving biodiversity – such as through the creation of green corridors, planting more trees, or forming local nature spaces.
30. Green improvements on-site would be preferred (and expected), but in the rare circumstances where they are not possible, developers will need to pay a levy for habitat creation or improvement elsewhere.
31. The costs of this type of intervention are modest and will be achieved through the use of more mixed planting plans, that use more locally appropriate native plants. To a large extent the costs of grass seeds and plantings will be unchanged. More thought and care will however go into the planning of the landscaping. There will be an additional cost of establishing the base line ‘pre-development’ situation, as a survey will need to be carried out.
32. The Government’s impact assessment⁷ suggests an average cost of scenarios including where all the provision is on site and where all is off site.

⁷ Table 14 and 15 Biodiversity net gain and local nature recovery strategies: impact Assessment.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/839610/net-gain-ia.pdf

Table 5 Cost of Biodiversity Net Gain –East		
2017 based costs		
	Scenario A 100% on-site	Scenario C 100% off-site
Cost per ha of residential development	£3,445/ha	£62,983/ha
Cost per ha of non-residential development	£3,150/ha	£47,885/ha
Cost per greenfield housing unit	£175/unit	£3,545/unit
Cost per brownfield housing unit	£64/unit	£777/unit
Residential greenfield delivery costs as proportion of build costs	0.1%	2.9%
Residential brownfield delivery costs as proportion of build costs	<0.1%	0.6%
% of industrial land values	0.4%	5.4%
% of commercial land values (office edge of city centre)	0.2%	3.0%
% of commercial land values (office out of town - business park)	0.3%	4.6%

Source: Tables 14 to 23: Biodiversity net gain and local nature recovery strategies – Impact Assessment

33. It is assumed provision will be on-site on greenfield sites and off-site on brownfield sites (this approach is different to that taken in the pre-consultation report). Much of the cost of implementing Biodiversity Net Gain is in the survey work and of the design, rather than the costs of the actual works.

White Paper: Planning for the Future (MHCLG, August 2020)

34. The Government has consulted on *White Paper: Planning for the Future* (MHCLG, August 2020) and various supporting documents. In terms of viability the two key paragraphs are:

Assessments of housing need, viability and environmental impacts are too complex and opaque: *Land supply decisions are based on projections of household and business ‘need’ typically over 15- or 20-year periods. These figures are highly contested and do not provide a clear basis for the scale of development to be planned for. Assessments of environmental impacts and viability add complexity and bureaucracy but do not necessarily lead to environmental improvements nor ensure sites are brought forward and delivered;*

Local Plans should be subject to a single statutory “sustainable development” test, and unnecessary assessments and requirements that cause delay and challenge in the current system should be abolished. *This would mean replacing the existing tests of soundness, updating requirements for assessments (including on the environment and viability) and abolishing the Duty to Cooperate.*

35. Pillar Three of the White Paper then goes on to set out options around the requirements for infrastructure and how these may be funded. The key proposals are:

Proposal 19: *The Community Infrastructure Levy should be reformed to be charged as a fixed proportion of the development value above a threshold, with a mandatory nationally- set rate or rates and the current system of planning obligations abolished.*

Proposal 21: *The reformed Infrastructure Levy should deliver affordable housing provision*

36. The above suggests a downgrading of viability in the planning system, however, as it stands, the proposals in the White Paper are options which may or may not come to be adopted so, at the time of this note (May 2022) a viability assessment is a requirement.

Queen's Speech 2021 and 2022

37. A range of planning reforms were outlined in the papers supporting the 2021 Queen's Speech. For the purpose of this assessment, the key points are as follows:

Planning Bill "Laws to modernise the planning system, so that more homes can be built, will be brought forward..."

The purpose of the Bill is to:

- *Create a simpler, faster and more modern planning system to replace the current one ...*
- *Help deliver vital infrastructure whilst helping to protect and enhance the environment by introducing quicker, simpler frameworks for funding infrastructure and assessing environmental impacts and opportunities.*

The main benefits of the Bill would be:

- *Simpler, faster procedures for producing local development plans, approving major schemes, assessing environmental impacts and negotiating affordable housing and infrastructure contributions from development. ...*

The main elements of the Bill are: ... Replacing the existing systems for funding affordable housing and infrastructure from development with a new more predictable and more transparent levy.

38. In the late summer of 2021, as part of the Government reshuffle, the Ministry of Housing Communities and Local Government was renamed as the Department for Levelling Up, Housing and Communities (DLUHC). Various ministers commented about revisiting some of the subjects that had been consulted on.

39. The Government's further thinking was set out in the 2022 Queen's Speech which included the following:

"A bill will be brought forward to drive local growth, empowering local leaders to regenerate their areas, and ensuring everyone can share in the United Kingdom's success. The planning system will be reformed to give residents more involvement in local development."

The main benefits of the Bill would be:

- *Laying the foundations for all of England to have the opportunity to benefit from a devolution deal by 2030 – giving local leaders the powers they need to drive real improvement in their communities.*
- *Improving outcomes for our natural environment by introducing a new approach to environmental assessment in our planning system. This benefit of Brexit will mean the environment is further prioritised in planning decisions.*
- *Capturing more of the financial value created by development with a locally set, non-negotiable levy to deliver the infrastructure that communities need, such as housing, schools, GPs and new roads.*
- *Simplifying and standardising the process for local plans so that they are produced more quickly and are easier for communities to influence.*

Levelling-up and Regeneration Bill

40. In May 2022, the Government published the *Levelling-up and Regeneration Bill*. This includes reference to a new national Infrastructure Levy. The Bill suggests that the Infrastructure Levy would be set, having regard to viability and makes reference to the *Infrastructure Levy Regulations*. *Infrastructure Levy Regulations* have yet to be published.
41. It will be necessary for the Council to monitor the progress of the Bill and in due course review the situation, as and when the Regulations are published.

Changes in Infrastructure Costs (s106).

42. In the 2019 Viability Assessment it was assumed all the modelled residential sites will contribute £2,000/unit. A range of higher costs were also tested.
43. The Council has continued to develop the evidence base in this regard and to work with Cambridgeshire County Council. At the time of this note the assessment of the costs remains a work-in-progress, however it is likely that the typical s106 cost on future development will be somewhat more than £2,000/unit.

Conclusions and observations

44. The assessment of development viability is based on the Residual Valuation approach. The income from a scheme is estimated and the costs of delivering that scheme are then deducted. For a scheme to be viable the Residual Value must exceed the Existing use Value by a sufficient margin to induce the landowner to sell.
45. If values have increased more than costs then viability will have improved, with the Residual Value increasing. If costs have increased more than values then viability will have worsened, with the Residual Value falling.
46. The above data shows that the average values of new build property have increased by about one third and build costs by about 3%. The Residual Value will have increased, indicating that viability will therefore have improved.
47. The additional costs of national policy will add to the costs of development, but this, even when taken together is going to be substantially less than the increase in average newbuild values. Whilst the work on the IDP and in connection with the Strategic Infrastructure costs is a work in progress there is likely to be capacity to bear greater costs than those assessed in the 2019 Viability Assessment
48. Fenland District Council can continue to rely of the conclusions set out in the *Local Plan & CIL Viability Assessment* (HDH, December 2019), although the report does now understate the Residual Value (and therefore the overall capacity to bear planning obligations) somewhat. Having said this there is clearly uncertainty around both house prices and inflation so it is recommended that the Council continues to monitor the situation.

49. As and when the final set of policies and preferred allocations have been identified it will be necessary to revisit viability. In the meantime, unless the Council was to take a radically different strategy to the emerging Plan we recommend that a decision to refresh the viability evidence is revisited following the Regulation 18 consultation.

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May 2022