

Matter 7: Housing

SUMMARY

1. The affordable housing proposals do not adequately deal with Greenfield Development Sites. Appropriate guidance is not provided on how to assess the viability of Greenfield schemes; with repeated references to the Existing Use Value plus premium approach (which is appropriate for Brownfield site viability assessments).
2. The affordable housing policy is now accompanied by a Draft Affordable Housing SPD that provides further information on viability assessments and how the policy in the core strategy will be applied. The SPD lacks evidence to support the Benchmark Land Values used within the SPD report. The Peter Brett Associates (PBA) CIL report incorporates Benchmark Land Values, evidenced from the Whiteleaf Consulting Viability Reports from January 2012. This key information is not included as part of the SPD assessment, but need to be taken into consideration within the overall assessment of the level of affordable housing that is viable.
3. The recommended Benchmark Land Value figure of £1.65m (CBC) is based on a single development site (the Christchurch Urban Extension). However the gross to net residential acreage ratio is disproportionately low for a Greenfield site at 1.5 to 1 (gross to net). From experience, a typical ratio would be circa 3:1. If the acreages are corrected in this way, the required benchmark land value would increase to circa **£2.25m per hectare**. Clearly this throws doubt on the credibility of the adopted benchmark land value and highlights the danger of adopting just one development site as the evidence base to support the entire SPD document. It would appear that no appraisal is provided in this document to support the £1.5m per hectare figure within East Dorset
4. The SDP commuted sum calculation approach effectively values the affordable content as market value minus £375 - £450 per m² (the affordable contribution). This implies that affordable housing is worth between £2,425 and £2,825 per square metre (which equates to circa 89% of Open Market Value (OMV). In reality affordable housing generally equates to circa 55% of OMV. The adopted approach grossly over-estimates the commuted sum payment and if this approach has been used in the viability analysis to support the policy position, the assessment would have underestimated the cost to the development of affordable housing.
5. The viability analysis discussed below does not support the recommended 50% affordable housing target. The commuted sum calculations are based on a lower 30% affordable housing amount; the 50% amount appears to be an aspirational target. East Dorset District Council (“EDDC”) and Christchurch Borough Council (“CBC”) appear to acknowledge that 50% is unrealistic for a number of developments. Point 8.6 of the SPD?, states that a minimum of 30% affordable is required on Greenfield Development Sites, with an expectation of 50%. This approach is contrary to recommendations within the NPPF (points 173 & 174) and the Harman Report ‘Viability Testing for Local Plans’, where the recommendation is that the affordable policy target should be set at a level that enables the majority of

scheme to remain viable and not threaten delivery.

6. The message “*viability negotiations are acceptable subject to robust evidence*” is a common thread throughout the SPD and in the context of proposed policy LN3. The approach appears to set the affordable target high (at 50%), and whilst it openly & repeatedly reference that viability negotiations will be acceptable, it would appear that EDDC and CBC hope to recover a higher overall amount of affordable housing, from a few sites. This is an unrealistic starting point, as evidenced below.
7. EDDC and CBC obtained independent viability advice in January 2012 (the Whiteleaf Consulting Viability Reports) highlighting that four of eight key housing sites are either non-viable or marginally viable at 40% affordable. This obviously indicates that the 50% requirement is unrealistic.
8. The PBA analysis approach assumes that all development (regardless of size) is ‘brought forward’ by an infrastructure developer, who sells serviced parcels of residential land to a housebuilder. As a result two amounts of developer profit are effectively ‘taken’ from any one parcel of land; the first profit is taken by an infrastructure developer & the second from a housebuilder. Whilst this effectively ‘adds costs’ to the development it reaffirms that the general approach is fundamentally flawed and the appraisal inputs that underpin the assessment are inappropriate & incorrect. Certain sites will be developed in this way, but not in all cases (and definitely not brownfield or very small sites). The majority of development is carried out by developers who purchase land, infrastructure it, build the houses and then sell them. This is the process that the viability testing analysis should ‘mirror’.

Response to Planning Inspector Questions

1. *Are the percentage requirements for affordable housing set out in LN3 justified by viability evidence?*

7.1.1 The percentage requirement set out in policy LN3 is not justified by the evidence base and is therefore considered not to be a sound approach.

7.1.2 The approach is not consistent with that recommended in the NPPF and the Harman Report “Viability Testing in Local Plans” that states that the affordable housing policy targets should be set at a level that enables the majority of development sites to viably proceed. Establishing this should be the primary target of the viability exercise, however evidence that demonstrates 50% affordable housing is not presented and in response to question 3 concerns are highlight in regard to the evidence that would suggest a lower rate. Setting an unrealistically high affordable target (that both Councils readily admit is unrealistic for a number of the key development sites – as supported by their own independent viability consultant and discussed below) does not present a justified and sound approach to policy making in this regard.

7.1.3 There are four reports that are used as evidence to support the 50% affordable housing requirement, these are as follows:

- The Christchurch and East Dorset draft SPD consultation document

- The Peter Brett Associates CIL Study – January 2013
- Whiteleaf Consulting – Viability Report for East Dorset – January 2012
- Whiteleaf Consulting – Viability Report for North Christchurch – January 2012

7.1.4 The usual approach in justifying an affordable housing requirement, a commuted sum calculation and/or a CIL level is to produce a high-level viability assessment in a standard residual appraisal format. However, the PBA report appears to have adopted a land-trading model – which is an extremely unusual/ inappropriate format and approach.

7.1.5 The PBA report has established what the residual land value is worth per hectare (at 100% market housing), before making deductions for affordable housing, infrastructure, s106 and CIL. This is a fairly illogical approach. The most appropriate methodology is to produce an appraisal reflecting the policy level of affordable/ s106, with appropriate levels of infrastructure, before comparing the residual land value to appropriate benchmark land values. This would follow the standard housebuilder model (as recommended in various viability toolkits and specifically by the Homes and Community Agency viability model).

7.1.6 In calculating an appropriate commuted sum payment, the PBA report appears to be based on the affordable deductions on 30% affordable – not the 50% proposed within the policy. This seems particularly unusual.

7.1.7 It is also important to highlight that Whiteleaf Consulting were appointed in January 2012 to undertake a viability review of a number of sites within the proposed core strategy areas in North Christchurch and East Dorset. The reports are referred to throughout the PBA report, and therefore form a critical part of the overall viability evidence. The summary conclusions from the Whiteleaf reports are as follows:

- North Christchurch – **Non-Viable at 40% affordable** - 25% to 30% recommended
- Land East of New Road, Parsley - Recommended 40% affordable
- Land West of Ridgeway – 40% affordable
- Violet Farm Close, Corfe Mullen – 40% affordable
- Wimborne Nursery - 40% affordable
- Stone Lane Industrial Estate, Wimborne - **Non-Viable at 40% affordable** (no recommended level provided)
- Cuthbury, Wimborne - Recommended level of affordable – 40% affordable
- Leigh Road, Wimborne - Recommended level of affordable – **Non-Viable at 40% affordable** (no recommendation provided)

7.1.8 Obviously the above sites form a significant part of the intended housing delivery within East Dorset and Christchurch. It is interesting to note that the East Dorset Report highlights that three of the seven sites are either non-viable or marginally viable at 40% affordable. The North Christchurch site is also non-viable at 40% affordable. It seems unusual that a policy requirement of 50% affordable is proposed when the Local Authorities' independent consultant has highlighted that this requirement, even on the basis of optimistic assumptions, would render more than half of the key development sites non-viable. Furthermore, having reviewed the above eight listed developments, certain allowances appear insufficient (certainly with regards to the costs of infrastructure). This places doubt in regard to the high level conclusions that Whiteleaf

Consulting have reached.

7.1.9 In summary, 50% affordable requirement has been put forward through policy but there is available evidence suggesting a lower requirement would be more appropriate.

7.1.10 There is no evidence provided to demonstrate that a 50% affordable requirement is justifiable on viability grounds. Based on our assessment and the above evidence of the Council, even 40% target should be considered optimistic.

7.1.11 Finally, the affordable housing contribution calculation is incorrect. The calculation is effectively market value minus £375 - £450 per m². This implies that affordable housing is worth between £2,425 and £2,825 per square metre, which equates to circa 89% of Open Market Value (OMV). In reality affordable housing generally equates to circa 55% of OMV and therefore the approach grossly over-values the commuted sum payment calculation.

2. Should the percentages reflect property market areas rather than a Greenfield/ Brownfield differential?

7.2.1 The percentage of affordable housing required should at least reflect market areas within the two districts. For instance in regard to the land value for Greenfield sites the evidence uses a land value of £308,00 per hectare but this is based on Christchurch sites and it is acknowledged later that in East Dorset land value is higher at about £370,000 per hectare. This would affect the viability appraisal inputs and ultimately the ability of sites to deliver affordable housing and should be acknowledge.

3. Are viability testing assumptions realistic with regards to:

Residual Land Values

7.3.1 The viability evidence provided by the Council's does not support the 50% affordable provision required by policy. The residual Land Values produced through the accompanying appraisals to justify the affordable requirement and CIL levels are based on 100% Market housing. Deductions are then made to reflect the affordable element but **only at 30% affordable**. There are a number of appraisal inputs that are questionable within these assessments, which are as follows:

- Market Revenues – the average market revenues for apartments and houses are £297 and £260 per square foot. I feel these are extremely optimistic as Borough-wide estimates, and as a result artificially inflate the residual land values
- Affordable Housing deduction – The commuted sum approach values the affordable as market value minus £375 - £450 per m² (the affordable contribution). This implies that affordable housing is worth between £2,425 and £2,825 per square metre, which equates to circa 89% of Open Market Value. In reality affordable housing equates to only circa 55% of OMV and therefore the adopted approach GROSSLY over-calculates the appropriate commuted sum payment.

- Standard Construction Costs – the average standard construction costs (again for apartments & houses) are included at £92 and £78 per square foot (in-line with BCIS as at October 2011). In general, the use of the BCIS figures is acceptable although clearly these costs are now out-dated and too low as a result. However, the PBA report does not appear to have correctly weighted the BCIS costs to reflect the location or made a Net to Gross allowance to the apartment rate per square foot. This adjustment is typically +15% to the apartment base build cost. These adjustments are on-top of the required allowances for contingency and plot externals. All of this is recommended within the BCIS Cost guidance but is not cover by the PBA report. Therefore the standard costs of construction are incorrect and under-appreciated. These costs will have technical fees and finance calculated on-top, which obviously further compounds their importance.
- Developer Profit – Allowances for developer profit are below what developers/ housebuilders require in the market place. PBA have included profit at 20% of total development costs. This equates to circa 15.5% on GDV. In most cases developers / housebuilders would be seeking a profit of 20% on market GDV and 6% of affordable GDV. These amounts are widely adopted in valuation/viability calculations, for instance used by the District Valuation Service.
- Outcome - The above results produce incorrectly high residual land values that are compared to inappropriately low Benchmark Land Values. The result is an unsound viability assessment, an incorrect commuted sum calculation and an incorrect approach to assessing the viability. The suggested CIL level could also be called in question a result of these findings.

Density

7.3.2 Density typically varies depending on the size, location and type of development in question. The CIL analysis that underpins the commuted sum calculation works on a consistent density of 35 dwellings per hectare. There should be an appropriate range of densities used as opposed to an average, probably on a sliding-scale basis to take account of differences across development sites and the district.

Other costs such as SANG/ CIL/ mitigation/ Space standards

7.3.3 The recommended Benchmark figure of £1.65m (CBC) is based on a single development site (the Christchurch Urban Extension). However, the gross to net residential acreage ratio is disproportionately low for a Greenfield site at 1.5 to 1 (gross to net). A typical ratio would be circa 3:1. If the acreages are corrected, the required benchmark land value increases to circa £2.25m per hectare. Clearly this throws doubt on the credibility of the adopted benchmark land value and highlights the danger of adopting just one development site as evidence. We have seen no evidence to support the £1.5m per hectare figure within East Dorset.

7.3.4 The infrastructure rates from the North Christchurch scheme are then impliedly adopted as appropriate throughout all of the viability advice - because they form an intrinsic part of the £1.65m that is used throughout the commuted sum & CIL viability testing. The abnormal, infrastructure and s106 for North Christchurch totals £18,200 per dwelling. This is not appropriate for all development types (as is the inference in the

adopted approach). For example, the early estimates for the North Wimborne Development abnormals, infrastructure and s106 total £29,300 per dwelling. Similarly a small 4 dwelling development may not incur this level of infrastructure and s106. Therefore a sliding scale mechanism would be more appropriate.

4. *Will the low trigger for providing AH prevent development from coming forward?*

7.4.1 In all likelihood this would be the case, particular for smaller urban sites, where developers / landowners may not be aware of or involved in this process.

5. *Does recent viability testing for CIL indicate any changes to policy are needed?*

7.5.1 As stated above, evidence from the CIL viability testing demonstrates that the affordable housing target is too high and as a result not sound. The policy should be amended to reflect this viability assessment to ensure a consistent approach with National Guidance and that to enable the policy position can be found sound.

6. *The implementation of both Policy LN3 and Policy LN4 (Affordable Housing Exception sites) relies on the Affordable Housing SPD. Is this SPD intended to be adopted concurrently with the CS?*

7.6.1 As raised above, there are concerns in regard to the evidence base and the use of the information to inform both the policy position and the affordable housing SPD. A draft SPD was published in July and the consultation period is on-going. There are concerns about the SPD and at this stage it would be wrong to assume it could be adopted concurrently with the Core Strategy.