

AFFORDABLE HOUSING VIABILITY REPORT FOR RESIDENTIAL DEVELOPMENT AT THE WHEATSHEAF PH, LEIGH PARK, HAVANT, HAMPSHIRE.

On behalf of Collingwood Investments Ltd

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1.0 Introduction and Instructions

- 1.1 Simon Corp was instructed by Collingwood Investments Ltd on the 3rd October 2012 to prepare an affordable housing viability study to determine if the redevelopment of the Wheatsheaf PH could viably support any s106 affordable housing or financial contributions.
- 1.2 The report has been prepared by Simon Corp, I have a BSc(Hons) in Residential Development and 19 years experience in affordable housing development. I have traded as an independent affordable housing consultant since 2004.
- 1.3 The purpose of the study is to set out the policy background, development details, viability and cost issues and make a case for the level of affordable housing contribution the development can viably sustain.
- 1.4 Our methodology will be to carry out a viability assessment without any affordable housing and compare this with the existing value, to determine the total development subsidy that is available to fund any affordable housing provision.
- 1.5 The appraisal has been carried out using the HCA Economic Appraisal Toolkit (EAT), where information is not available any assumptions made are either in line with industry norms or the default settings of the toolkit.

2.0 Viability Assessment

- 2.1 The proposed scheme involves the redevelopment of the former site of the Wheatsheaf PH which has now been demolished for a new development of 15no apartments and 6 houses as defined on the attached drawing 09-1604-105.
- 2.2 We have appraised the site using the EAT (Economic Appraisal Tool) as all open market sale with no affordable housing to determine the surplus above Existing Use which is available to fund affordable housing provision or a financial contribution. The results of EAT is a negative residual land value of -£17,581.
- 2.3 The RICS guidance on viability 2011 states that viability should be compared with the existing open market value of the site. The site has now been cleared but did receive a planning consent for a scheme of 14no two bed apartments in 2007. The current owners implemented this consent by demolishing the building which was a planning condition and so we propose the existing value is the residual value generated by that scheme.
- 2.4 To assess the open market value of that consent we have run an EAT on the consented mix but using the same cost and value assumptions as the new EAT. This produces a residual value of £36,190.
- 2.5 The vendors paid substantially more for the site in 2007 and the site still carries a bank debt of circa £400,000 and an associated company is supporting this debt. So clearly there is a significant viability issue in the site coming forward for development as the site is worth significantly less than its book debt.
- 2.6 The residual value derived for the new scheme of 21 units as all open market is £53,771 below the existing value, so clearly the site is unable to sustain any affordable housing or other s106 costs. The scheme is being proposed because it provides a greater amount of units overall and much needed family accommodation for the borough, but the values it generates does not fund the additional build costs so the viability pressure is compounded.
- 2.7 Core Strategy policy CS9 would require 6no affordable housing units on the site, however as an all private development produces a negative residual value, introducing affordable housing units would only compound the negative viability position. To illustrate this we have carried out a further EAT appraisal with 6 units for affordable rent and this reduces the land value to -£175,590.
- 2.8 We have appraised these as all affordable rent because at 6 units the s106 element is too small to justify a mixed tenure scheme and demand for shared ownership in Leigh Park is likely to be limited.

- 2.9 The vendors are proposing to sell the site to Hermitage Housing Association for an affordable rent development, the current offer from Hermitage at £1,929,000 is insufficient and the s106 affordable housing obligation needs to be removed so Hermitage can allocate grant funding against the units to improve the offer.
- 2.10 No allowance has been made for any s106 contributions in line with normal viability assessment practice so the total development subsidy available to fund all s106 costs can be assessed. Development subsidy is defined as the excess in value of residual land value over existing use value. If residual land value is less than existing use there is no subsidy available to fund s106 costs. To value the existing consent we have however included the agreed s106 contributions of £14,656.44.
- 2.11 The EAT includes for an allowance of £65,000 to pay the current leaseholder of the retail unit to relinquish his lease. The development cannot be realised without this area of the property so this is a development cost.
- 2.12 The Leigh Park area is characterised by post war former Local Authority Housing, most of these are still in RSL ownership with a predominance of social rented housing. This constrains local open market values in comparison to the rest of the Borough. The estimated sales values are £1808/m² build costs alone (before contingency and design fees) at £1071/m² are 59% of gross development value. This is well above the rule of thumb of 35-40% of GDV. This only leaves the remaining 41% of GDV to fund fees, marketing costs, profit which is 20% alone and finance *before* any land value is generated.
- 2.13 In summary the site has a negative residual land value and as such is unable to generate any surplus to fund affordable housing or make a financial contribution. However it is still the intention the site is developed for non s106 affordable housing so there is no loss of affordable housing delivery to the Borough.

3.0 Policy Background

Adopted Core Strategy

- 3.1 Havant Borough Council adopted a new Core Strategy in March 2011 which supersedes the previous Local Plan policies. The relevant housing policy is contained in CS9 Housing.
- 3.2 The policy states a requirement to provide 30-40% affordable housing on site for sites in excess of 14 units and the same level on site or by financial contribution for sites of 5-14 units, unless a lesser requirement has been transparently justified on viability grounds.
- 3.3 In setting the policy the council commissioned DTZ to carry out district wide viability testing, but it is acknowledged in the text that property values vary significantly across the District, so individual site viability testing will be required.
- 3.4 The policy sets out a mix requirement of 65-70% being social rented and the remainder intermediate. Without the levels of grant being available to support social rented in its true form at target rents, the Local Authority will need to clarify if affordable rent can supersede social rent in the policy definition.
- 3.5 Core Strategy CS9 would require 6 affordable housing units, this is too low a number to afford a tenure split so these are likely to be rented units, however as set out in the Executive Summary we have demonstrated a “lesser level can be transparently justified on viability grounds”.

Draft Housing SPD March 2011

- 3.6 This document is intended to provide more detail and clarity on the Core Strategy policy. I have restricted my comments to the parts of the document around affordable housing provision, delivery and viability issues.
- 3.7 Developments are expected to provide a range of types of accommodation and the affordable housing mix should reflect the overall mix on the site. The priority will be to provide accommodation with two or more bedrooms.
- 3.8 It is expected that affordable housing land is transferred to an RSL for a nil value and be clean and serviced.
- 3.9 The Council states that it will adopt a flexible negotiated approach to affordable housing delivery. It is recognised that each site is different and the council will take into account specific circumstances in its negotiations.

- 3.10 The document states that where a developer believes that affordable housing requirements would make a scheme unviable, an open book approach must be adopted and the claim substantiated by detail evidence that allows the viability to be tested.

HCA Good Practice Note- Investment and Planning Obligations Responding to the Downturn

- 3.11 This guidance advises Councils and Developers to work in a collaborative way to find solutions to deliver affordable housing in a climate of depressed values and viability pressure.
- 3.12 This document clearly states that unviable affordable housing requirements should not stifle housing developments that would otherwise come forward.
- 3.13 Viability should be assessed and sustainable obligations agreed now, with ongoing viability assessment through the life of the development with the potential for enhanced obligations at a later date when the development can support them.

Planning for Growth Statement 23rd March 2011

- 3.14 A ministerial statement by Greg Clarke outlined the government's intention to increase flexibility in the planning system to ensure that it does not stifle economic development. In particular the statement says that in deterring planning applications Local Authorities need to be sensitive to the fact that local economies can change and the need to ensure they do not place unnecessary burdens on a development.
- 3.15 The statement goes on to say that unviable s106 agreements should be re-considered and where possible modify applications to allow developments to proceed.

National Planning Policy Framework March 2012

3.16 The National Planning Policy Framework (hereafter referred to as NPPF) contains an overarching policy principle that there should be a presumption in favour of sustainable development, meaning that Local Authorities should positively seek development opportunities to meet the needs of their area, unless:

- any adverse impacts of doing so would significantly and demonstrably outweigh the benefits, when assessed against the policies in this Framework taken as a whole; or
- specific policies in this Framework indicate development should be restricted.

3.17 Local Authorities should proactively drive and support sustainable economic development to deliver the homes, business and industrial units, infrastructure and thriving local places that the country needs. Every effort should be made objectively to identify and then meet the housing, business and other development needs of an area, and respond positively to wider opportunities for growth.

3.18 The document goes on to say that plans should take account of market signals, such as land prices and housing affordability, and set out a clear strategy for allocating sufficient land which is suitable for development in their area, taking account of the needs of the residential and business communities.

3.19 Local Authorities should avoid the long term protection of sites for employment use if there is no reasonable prospect of this being taken up for that purpose.

3.20 Looking more specifically at housing delivery it states “use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies set out in this Framework, including identifying key sites which are critical to the delivery of the housing strategy over the plan period”.

3.21 There is a need to ensure there will be the right balance of housing to meet need and demand the framework states;

deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable, inclusive and mixed communities, local planning authorities should:

- Plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community (such as, but not limited to, families with children, older people, people with disabilities, service families and people wishing to build their own homes);
- Identify the size, type, tenure and range of housing that is required in particular locations, reflecting local demand; where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.”

3.22 The framework reinforces previous policy statements that planning requirements should maintain economic viability, the framework states “pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”

3.23 The framework states that planning obligations normally required under s106 agreements should only be sought where they meet all of the following tests:

- Necessary to make the development acceptable in planning terms;
- Directly related to the development; and
- Fairly and reasonably related in scale and kind to the development.
- Where obligations are being sought or revised, local planning authorities should take account of changes in market conditions over time and, wherever appropriate, be sufficiently flexible to prevent planned development being stalled.
- Planning conditions should only be imposed where they are necessary, relevant to planning and to the development to be permitted, enforceable, precise and reasonable in all other respects.

Housing and Growth Statement 6th September 2012

3.24 The Secretary of State for Communities and Local Government (Rt Hon Eric Pickles MP said on the 6th September 2012 “The Coalition Government’s number one priority is to get the economy growing. We must create the conditions that support local economic growth and remove barriers that stop local businesses creating jobs and getting Britain building again.”

He went on to say “It is vital that the affordable housing element of Section 106 agreements negotiated during different economic conditions is not allowed to undermine the viability of sites and prevent any construction of new housing. This results in no development, no regeneration and no community benefits at all when agreements are no longer economically viable.”

4 Cost and Viability Issues

Existing Use Value (EUV)

- 4.1 The RICS guidance on viability 2011 states that viability should be compared with the existing open market value of the site. The site has now been cleared but did receive a planning consent for a scheme of 14no two bed apartments in 2007. The current owners implemented this consent by demolishing the building which was a planning condition and so we propose the existing value is the residual value generated by that scheme.
- 4.2 To assess the open market value of that consent we have run an EAT on the consented mix but using the same cost and value assumptions as the new EAT. This produces a residual value of £36,190.
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Sales values

- 4.4 We have carried out an internet based assessment of sales values in the locality and this indicates the following average sales values could be achieved:

One bed apartment- £100,000
Two bed apartment- £128,000
Three bed house- £155,000

- 4.5 These values equate to average selling prices of £1,835-1,913/m² for the apartments and £1,632/m² for the three bed houses. The Leigh Park location is characterised by a predominance of social rented units and open market values are consequently significantly lower than surrounding areas in the Borough.
- 4.6 The final price achieved will of course be dependant on market conditions at the time but we believe this is a fair assessment of a realistic and achievable sales price considering the location of the site, specification level and market into which the development will be selling.

Construction Costs

- 4.7 We have used an assumed construction cost of £1071/m² including preliminaries, but excluding design fees and contingency. This is based on net internal floor area and the communal areas would need to be constructed from this budget. If the communal area were a typical 15% of net area the build cost rate on a gross basis would be £910.35/m².
- 4.8 We have applied allowances for design fees and contingency at 8% and 5% respectively, these are less than the guideline allowances in the EAT.
- 4.9 The costs include allowances for any measures that may be required to achieve Code for Sustainable Homes level three.
- 4.10 The cost also assume a requirement for piled foundations and party wall agreements with the adjoining property owners.
- 4.11 The base build cost is based on indicative advice from local contractors costing the development. However we would caution that this level of costs is well below average tender returns and the BCIS level for this type of development and a more typical level at tender would be £1200-1300/m² gross external. A higher construction cost would clearly compound the viability pressure.

Abnormals

- 4.12 We have allowed for abnormal costs of £25,000 for a sewer diversion and £60,000 being the agreed payment for the existing leaseholder to relinquish his lease

Profit

- 4.13 We have adopted accepted industry standard profit levels of 20% for the private sale. Most lenders are currently requiring at least 20% return from sites, particularly for apartment projects in marginal locations where the perceived risk is higher.

5. Other Model Assumptions and Inputs

- 5.1 The basis for assumptions on sales values, construction costs and profit are set out in section 5.

Programme

- 5.2 The EAT assumes a 6 month lead in to site start for detail design, building regulations approval, lining up sub-contract packages and site set up. The contract period is 18 months with a sales period of 8 months equating to an approximate sales rate of 2.6 units per month. We believe this is realistic in current market conditions in a marginal sales location.

S106 Contributions

- 5.3 No allowance has been made for any s106 contributions so we can observe the total subsidy that is available to fund all s106 costs.

Interest Rates

- 5.4 We have used a finance rate of 6.5% which is in our experience a typical level. The availability of development finance remains an issue with very few of the major banks still actively lending to residential development companies. Those still in the market can “pick and choose” deals to fund and expect to see healthy margins particularly in marginal non prime locations which are perceived as having a greater sales risk.

Affordable Housing Inputs

- 5.5 For the EAT version with affordable housing we have assumed rent levels at 80% of the open market rent levels of £575pcm for a one bed, £675pcm for a two bed apartment and £800pcm for the three bed houses. The apartment rent levels is discounted by a service charge of £10pw.
- 5.6 In line with HCA guidance no grant funding has been assumed against s106 units.

