

AFFORDABLE HOUSING VIABILITY REPORT FOR RESIDENTIAL DEVELOPMENT AT THE BREWMASER, 158 HARTPLAIN AVENUE, WATERLOOVILLE, HAMPSHIRE, PO8 8QP.

On behalf of Seaview Estates Ltd.

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9^h April 2014.**

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1.0 Introduction and Instructions

- 1.1 S106 Affordable Housing Ltd was instructed by Seaview Estates Ltd on the 4th April 2014 to prepare an affordable housing viability study to determine the viable level of affordable housing that can be delivered on the proposed development at The Brewmaster, 158 Hartplain Ave, Waterlooville, Hampshire, PO8 8QP.
- 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 provision 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 use value, to determine the total development subsidy that is available to fund any affordable housing provision. We then look at the effect on the viability of introducing affordable housing.
- 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 site is currently occupied by a public house which has been disused for some time. This will be demolished and the site redeveloped for a scheme of 9no two bedroom apartments with associated car parking, cycle and refuge storage will be built.
- 2.2 The development obtained planning consent in 2012 with a s106 agreement requiring 3no affordable rent units and a financial contribution of £32,693.85. This requirement is rendering the development unviable and preventing the site coming forward, we have been instructed to undertake a viability assessment to support a planning application to vary the s106 terms in line with S106BC procedures.
- 2.3 We have appraised the site using the EAT (Economic Appraisal Tool) as all open market sale without the affordable housing to determine the surplus above Existing Use Value which is available to fund the s106 obligations. The results of EAT is a negative residual land value of - £233,616.
- 2.4 The development is deemed viable if the residual land value is above the existing value or benchmark value of the site. Our client purchased the existing building on an unconditional basis in the open market for £200,000 so we have taken this as the benchmark existing value. This complies with the RICS Viability Guidance 2011 definition of existing value.
- 2.5 The residual value without any affordable housing is therefore below the existing use value and clearly there is no surplus to fund any affordable housing provision or other s106 contributions.
- 2.6 On a policy compliant basis with 3no affordable rent units the residual value reduces to -£405,211 so introducing the affordable housing just compounds the viability pressure on the development. We have also explored a tenure change to shared ownership, this improves the residual value slightly when compared to rented to -£357,561 but clearly still unviable.
- 2.7 The toolkits have been produced in line with HCA guidelines that grant funding will not be supported on s106 units, however in exceptional circumstances grant can be introduced where there is viability pressure. The regional average grant level is £25,000 a unit making a total of £75,000. When this is applied to the affordable rent version it marginally improves the land value to -£330,211 but clearly the appraisal remains unviable.
- 2.8 In summary as the residual land value with no affordable housing is below the benchmark existing value of the site the development is unable to viably deliver any affordable housing or s106 contributions.

3. Policy Background

Havant Borough Core Strategy

3.1 Havant Borough Council affordable housing policy is contained within the Core Strategy which was adopted in March 2011.

3.2 The affordable housing Policy CS9 states that planning permission will be granted for housing proposals that will deliver on average 30-40% affordable housing on sites of 15no dwellings or more and secure a suitable contribution, or on-site provisions, equivalent to on average 30-40% on smaller housing developments between 5no and 14no dwellings (gross), unless a lesser requirement has been transparently justified on viability grounds.

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

- 3.3 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.
- 3.4 This document clearly states that unviable affordable housing requirements should not stifle housing developments that would otherwise come forward. 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

- 3.5 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.

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

- 3.6 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.
- 3.7 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.
- 3.8 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.
- 3.9 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.
- 3.10 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”.
- 3.11 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.”

3.12 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.”

3.13 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

- 3.14 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.”

Planning Practice Guidance March 2014

- 3.15 The Department for Communities and Local Government provided Planning Practice Guidance on 6th March 2014. This includes a section on viability, site specific viability is covered in the section Viability and Decision Taking.
- 3.16 The practice note states that *“in making decisions, the local planning authority will need to understand the impact of planning obligations on the proposal. Where an applicant is able to demonstrate to the satisfaction of the local planning authority that the planning obligation would cause the development to be unviable, the local planning authority should be flexible in seeking planning obligations.”*
- 3.17 The note goes on to say this is particularly relevant for affordable housing payments and these should not be sought without regard to scheme viability.
- 3.18 It then continues to set out some general principles on how the principle variables; gross development value, costs, existing value and landowners return should be calculated and evidenced. This is really a summary of established known good practice in the sector.

4 Cost and Values

Existing Use Value (EUV)

- 4.1 Our client purchased the existing building on an unconditional basis in the open market for £200,000 so we have taken this as the benchmark existing value. This complies with the RICS Viability Guidance 2011 definition of existing value.
- 4.2 The site was originally marketed by Lambert Smith Hampton for £600,000 as a going concern and was marketed between 2010-2012 but no pub operators expressed interest. It was subsequently sold at £200,000 as a development opportunity. A copy of the Lambert Smith Hampton marketing report is attached to this report.

Sales values

- 4.3 We have undertaken an internet based market research assessment of achievable values within a mile radius of the site. We looked at a range of comparables and found the two bedroom apartments in the range of £90,000-159,950. The nearest comparables within 0.5 miles of the site were at the lowest end of this range, however we have adopted the mid point and used a proposed sales value of £125,000 to reflect a newbuild premium.
- 4.4 This equates to a sales value of £1,862 per square metre.
- 4.5 The actual price achieved will be dependent on market conditions at the time of marketing, competitor developments and the completed specification and finishes.

Construction Costs

- 4.6 In line with normal viability practice we have used the BCIS average price service to determine likely construction costs using the median cost rate. We have used the five year range as this picks up on recent legislative changes in the Building Regulations and the requirements of the Code for Sustainable Homes.. We have also added a rule of thumb allowance of 15% for external works and infrastructure. This results in a base cost of £1,266 per square metre.

4.7 The BCIS average price service provides a good evidential base for the build cost assumptions as it is based on actual tender returns, in this case a return sample size of 161.

4.8 We have separately allowed for design fees at 7% and contingency of 5% both of which are below the default values of the toolkit.

Abnormal Costs

4.9 We have allowed for the demolition and clearance of the existing building and site of £30,000. We have not been made aware of any other abnormal costs.

Profit

4.10 Following informal advice from the Valuation Office we have employed a level of development profit at 18% on the private sale units and 6% for the affordable housing. However we do consider this to be on the low end of the spectrum, many lenders in fact demand a higher profit level and 20% is generally accepted as the minimum acceptable level to attract debt finance.

Affordable Housing Inputs

4.11 We have set the affordable housing rents at 80% of the average market rent which we have taken as £625pcm providing a weekly affordable rent of £114.94pw. This is below the maximum local housing allowance for a 2no bedroom flat of £137.93 per week.

4.12 The shared ownership has been based on 40% initial sale shares and a rent on the unsold equity at 2.75%.

4.13 In line with HCA guidance that grant funding will not be supported on s106 schemes we have not allowed for any grant funding in the appraisals.

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 12 months with a sales period of 3 months.

S106 Contributions

- 5.3 We have allowed for the s106 contributions detailed in the signed s106 agreement. These are a Transport contributions of £32,693.85, Playing space contributions of £9,783 and Monitoring contributions of £1,274.31 this gives a total sum of £43,751.16.

Interest Rates

- 5.4 We have used a finance rate of 6.25% 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.

Sales and marketing costs

- 5.5 We have allowed for an allowance of 3.5% of gross sales value for sales and marketing this will cover a sales agent of 2% and additional allowances for a show home production of marketing material and advertising and promotion.

