

EAST HERTS COUNCIL

LOCAL DEVELOPMENT FRAMEWORK EXECUTIVE PANEL –
23 SEPTEMBER 2010

JOINT REPORT BY EXECUTIVE MEMBERS FOR PLANNING
POLICY AND TRANSPORT AND HOUSING AND HEALTH

STRATEGIC HOUSING MARKET ASSESSMENT – VIABILITY
ASSESSMENT FOR LONDON COMMUTER BELT (EAST)/M11
SUB REGION – FINAL REPORT (AUGUST 2010)

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report presents the final Strategic Housing Market Assessment (SHMA) Viability Assessment undertaken on behalf of the London Commuter Belt (East)/M11 Sub-region, prepared by Level.

<u>RECOMMENDATION FOR EXECUTIVE:</u>	
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(A)	That the Strategic Housing Market Assessment – Viability Assessment for London Commuter Belt (East)/M11 Sub Region – (August 2010) be agreed and published as a technical study, forming part of the evidence base to inform and support the Local Development Framework (LDF), and for planning policy and housing strategy purposes.
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1.0 Background

- 1.1 In January 2010, the Council agreed and published its Strategic Housing Market Assessment (SHMA) technical study to form part of the evidence base for the Council's Local Development Framework (LDF) and for planning policy and housing strategy purposes.
- 1.2 The purpose of the SHMA is to assess current and future housing demand and housing need, and how the distribution of need and demand varies across the plan area. Importantly, the SHMA will be used to inform decisions relating to affordable housing provision,

tenure mix, and the type and mix of houses that are built in East Herts.

- 1.3 When formulating planning policy in respect of affordable housing, Paragraph 29 of Planning Policy Statement 3: Housing (PPS3) is clear that “planning authorities will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed, including their likely impact upon overall levels of housing delivery and creating mixed communities.”
- 1.4 Thus it was agreed to commission further technical work to assess the viability of the SHMA recommendations. The SHMA Viability Assessment was undertaken by Levvel on behalf of the London Commuter Belt (East)/M11 Sub-region, which includes Brentwood, East Herts, Epping Forest, Harlow and Uttlesford Councils. Work on the SHMA Viability Assessment commenced in January 2010 costing £29,700. The study has been paid for through the Government’s Growth Area Fund 3: Programme for Development (POD).
- 1.5 The Executive Summary is attached as Essential Reference Paper B. An electronic copy of the full report including appendices is available online at www.eastherts.gov.uk/shmava. Hard copies can be made available for Members on request from the Planning Policy Team. Public inspection copies are available at reception at the Council’s offices in Hertford and in Bishop’s Stortford. Conclusions in respect of East Herts (Pages 254 - 260 of the Final Report) are attached as **Essential Reference Paper C**.
- 1.6 The purpose of the SHMA Viability Assessment is to undertake a strategic assessment of the viability of the recommendations of the SHMA study and the economics of development to inform affordable housing policies and targets. The study tests a range of development scenarios and circumstances and will set the framework for further detailed testing of specific sites, as part of the Council’s housing trajectory and Strategic Housing Land Availability Assessment (SHLAA).
- 1.7 In essence, therefore, a two-stage approach to viability has been adopted, with this strategic assessment work establishing the viability framework for the testing of specific SHLAA sites. Such an approach will give both transparency and certainty to those involved in the SHLAA process as well as testing the findings of the SHMA itself. This will assist in ensuring that the final affordable housing

policies in the Council's LDF are as robust as possible and work to maximise deliverability of all housing, not just affordable housing.

2.0 Report

Methodology

- 2.1 The Viability Assessment is based upon a residual land value model, which is a recognized practice in the development industry for evaluating costs and incomes associated with development. In essence, the model compares the income from the scheme (i.e. rental or sales values) against the costs of developing the scheme. The amount left over is what is left for land acquisition i.e. the residual land value.
- 2.2 The residual value is then compared against baseline land values and the gross development value of the scheme. Where the residual land value exceeds the baseline land values, the amount left over can be used to pay for affordable housing. In East Herts, greenfield and industrial land is valued at £2,280,000 per hectare (£923,076 per acre) whilst previously developed residential land is valued at £4,440,000 per hectare (£1,797,570 per acre). There are of course, variations in land value within each of the five districts in the study area. As such, land values have been considered at postcode area level.
- 2.3 The Level model has been 'future proofed' as far as possible by looking at three scenarios for the housing market: upside, middle, and downside. The upside scenario assumes that house prices will increase in the short-term; the middle scenario assumes that house prices will follow the trend between 1992 and 2003 and the downside scenario assumes a long-term trend below the middle position; a worst case scenario. By reporting on the viability of schemes were they delivered at different points within this range, Level has been able to take a view as to how it will affect viability.
- 2.4 In assessing scheme viability Level has taken into account the following costs associated with bringing forward a housing scheme for development. These base level assumptions were agreed following consultation with a range of developer stakeholders.
- Affordable housing grant levels
 - Affordable housing rent levels
 - Build Costs
 - Code for Sustainable Homes Requirements

- Developer profit (19% gross)
- Lifetime Homes Requirements
- Other Development Costs (e.g. fees, interest rates etc)
- Section 106 / Community Infrastructure Requirements
- Timetabling and phasing

2.5 A range of notional (as opposed to actual) sites, varying in the number of house units, were assessed within each district. In East Herts, the following schemes were tested at a range of densities (dwellings per hectare (dph)) in the postcode areas of CM23 (Bishop's Stortford), SG9 (Buntingford and rural area), SG11 (central rural area), SG12 (Ware and rural area) and SG13/14 (Hertford and rural area). These areas were selected because they reflect the range of postcode values across East Herts. This modelling approach ensures that the implications of development size, type and location on scheme viability can be fully assessed and understood. Such an approach is crucially important in a large district like East Herts where a single housing market does not exist and house prices vary depending on location, and where it is likely that new housing will be delivered in a range of schemes and circumstances.

- 10 unit scheme at 30, 50 and 70 dph
- 15 unit scheme at 30, 50 and 70 dph
- 50 unit scheme at 30, 50, 70 and 100 dph
- 150 unit scheme at 30, 50 and 70 dph
- 1500 unit scheme at 40 dph
- 3000 unit scheme at 40 dph

2.6 As a starting point, a baseline of 35% affordable housing was assessed for every scheme across the study area. Then for each postcode area, realistic targets above or below the baseline were tested. It was felt that a standard baseline approach across the study area would help ensure the study was robust. This was important given the significant variances in the affordable housing requirements identified in the SHMA between each district (e.g. Harlow 21%, Brentwood 95%). 35% was also the figure stated in Policy H2 of the East of England Plan, although since work on the SHMA Viability Assessment commenced, the East of England Plan has been revoked.

2.7 In respect of East Herts, the SHMA recommended an affordable housing requirement of 45.2% (33.7% intermediate i.e. shared ownership, key worker rent, intermediate rent and 11.5% social

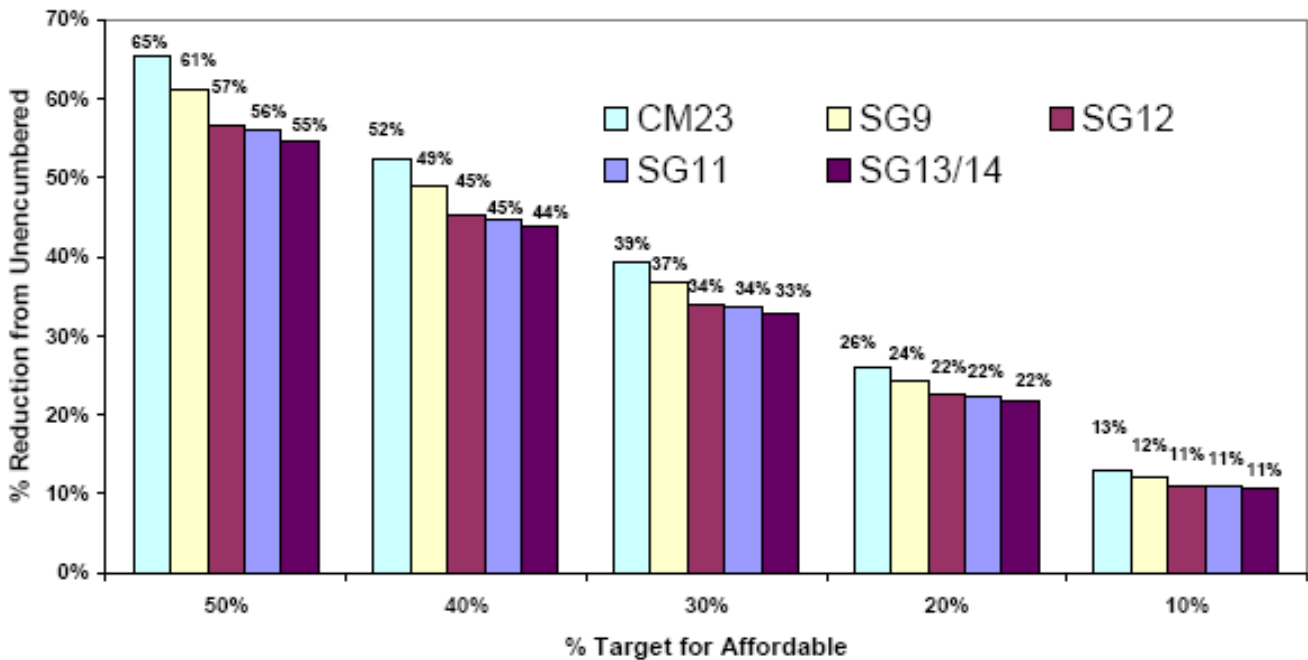
rented housing). Where 35% affordable housing was found to be viable, levels up to 45% were tested.

- 2.8 The tenure mix of a particular site can also affect development viability. Bearing in mind the recommendations of the SHMA, three tenure mixes were tested: 75/25 social rented/intermediate; 50/50 social rented/intermediate; and 25/75 social rented/intermediate.

Summary of Results

- 2.9 It should be stressed that the SHMA Viability Assessment is a technical study, and along with the SHMA study itself, the findings and recommendations will be used to inform district wide planning policy including the East Herts Local Development Framework (LDF) and Strategic Housing Land Availability Assessment (SHLAA). Furthermore, the SHMA Viability Assessment is a strategic assessment of development viability and any economic assessment of a development should be site and scheme specific. Thus, a further detailed assessment of specific sites will need to be undertaken as part of the ongoing work on the East Herts SHLAA.
- 2.10 It should also be noted that a scheme will only come forward for housing development if it is viable to do so; i.e. the value of the housing scheme exceeds the existing or alternative use value of the site. This is true for schemes provided with and without subsidy.
- 2.11 Figure 1 shows the effect on scheme economics of the imposition of different affordable housing percentages on the various postcode areas across East Herts. As can be seen, the higher the percentage, the greater the reduction in scheme value, with 50% affordable housing resulting in between a 55% and 65% reduction in value, subject to the postcode area. Reflecting the housing markets in East Herts, there is a clear difference between the CM23 (Bishop's Stortford) postcode area and the SG13/14 (Hertford) postcode area.

Figure 1: Effect of Affordable Housing on Scheme Economics (50 unit 50dph notional scheme)

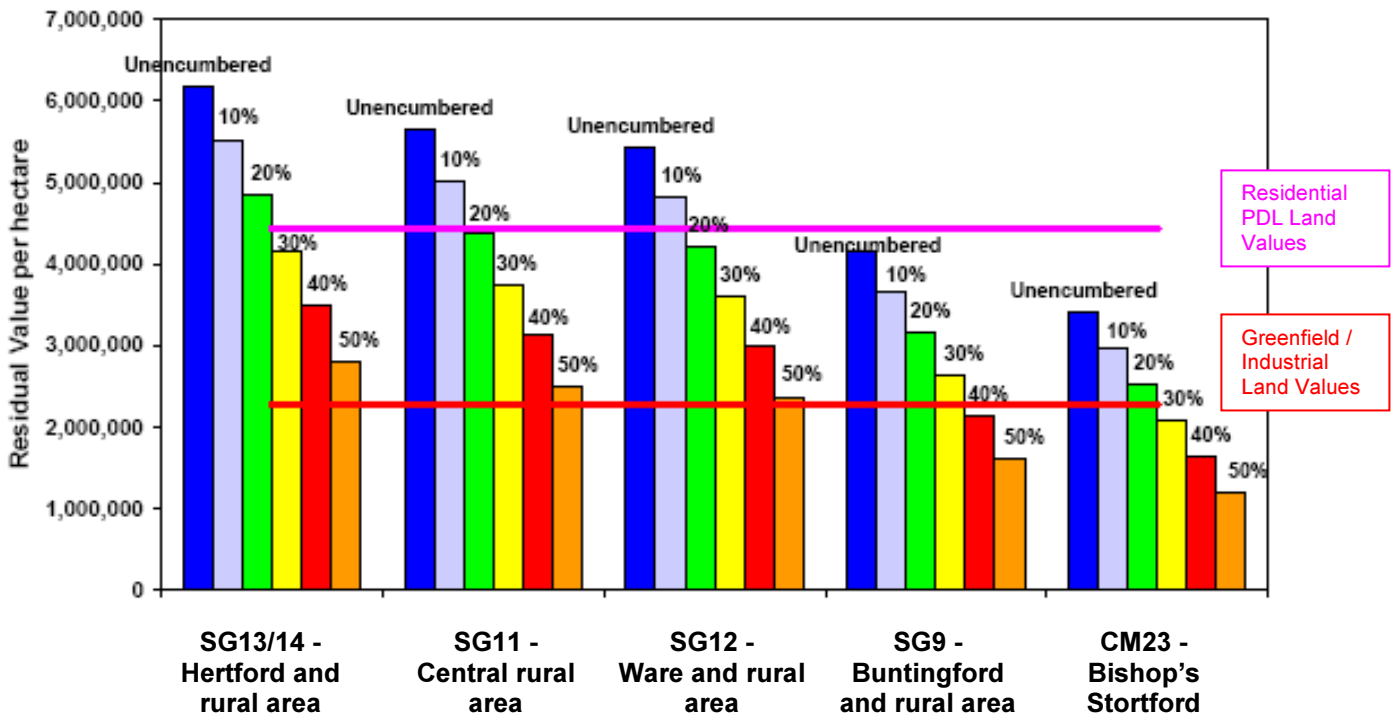


CM23 - Bishop's Stortford
 SG11 - Central rural area
 SG13/14 - Hertford and rural area

SG9 - Buntingford and rural area
 SG12 - Ware and rural area

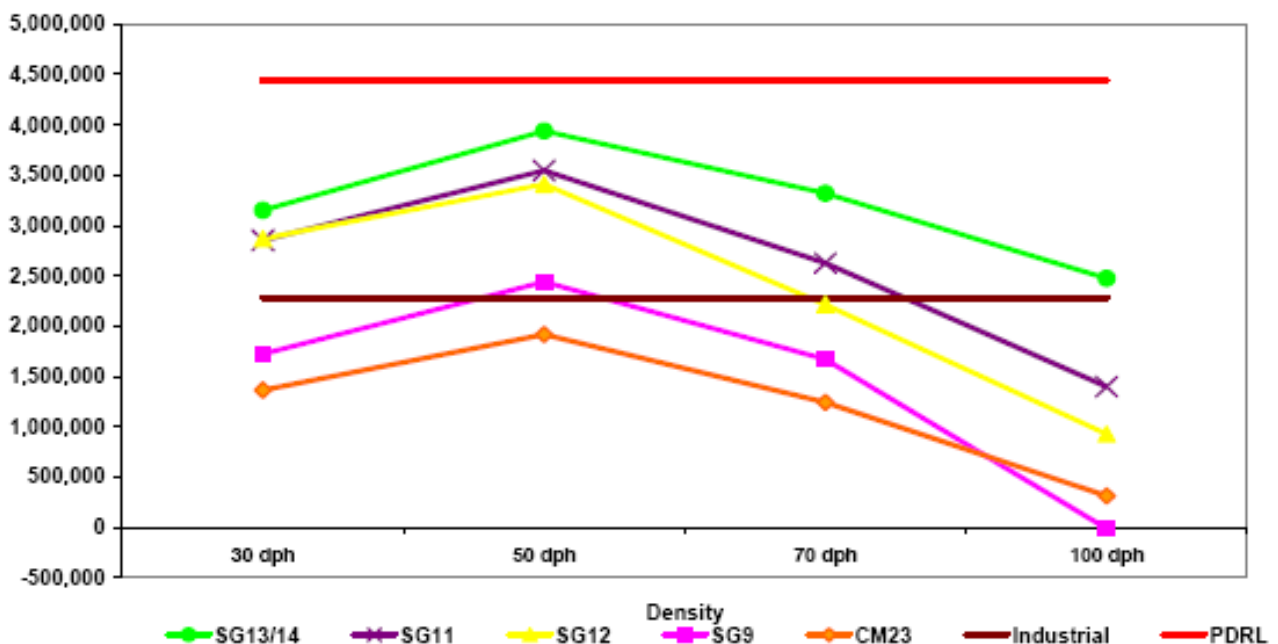
2.12 Figure 2 shows the effect on residual land values of the imposition of different affordable housing percentages on the various postcode areas across East Herts. As can be seen, a scheme unencumbered by affordable housing exceeds greenfield/industrial land values (bottom/red horizontal line) in all postcode areas whereas an unencumbered scheme only exceeds previously developed land values (top/pink horizontal line) in three postcode areas. Clearly, 30% affordable housing is deliverable in all postcode areas (although only marginally in CM23) on greenfield and industrial sites.

Figure 2: Effect of Affordable Housing on Residual Land Values (50 unit 50dph notional scheme assuming 50/50 intermediate/social rent and nil affordable housing grant)



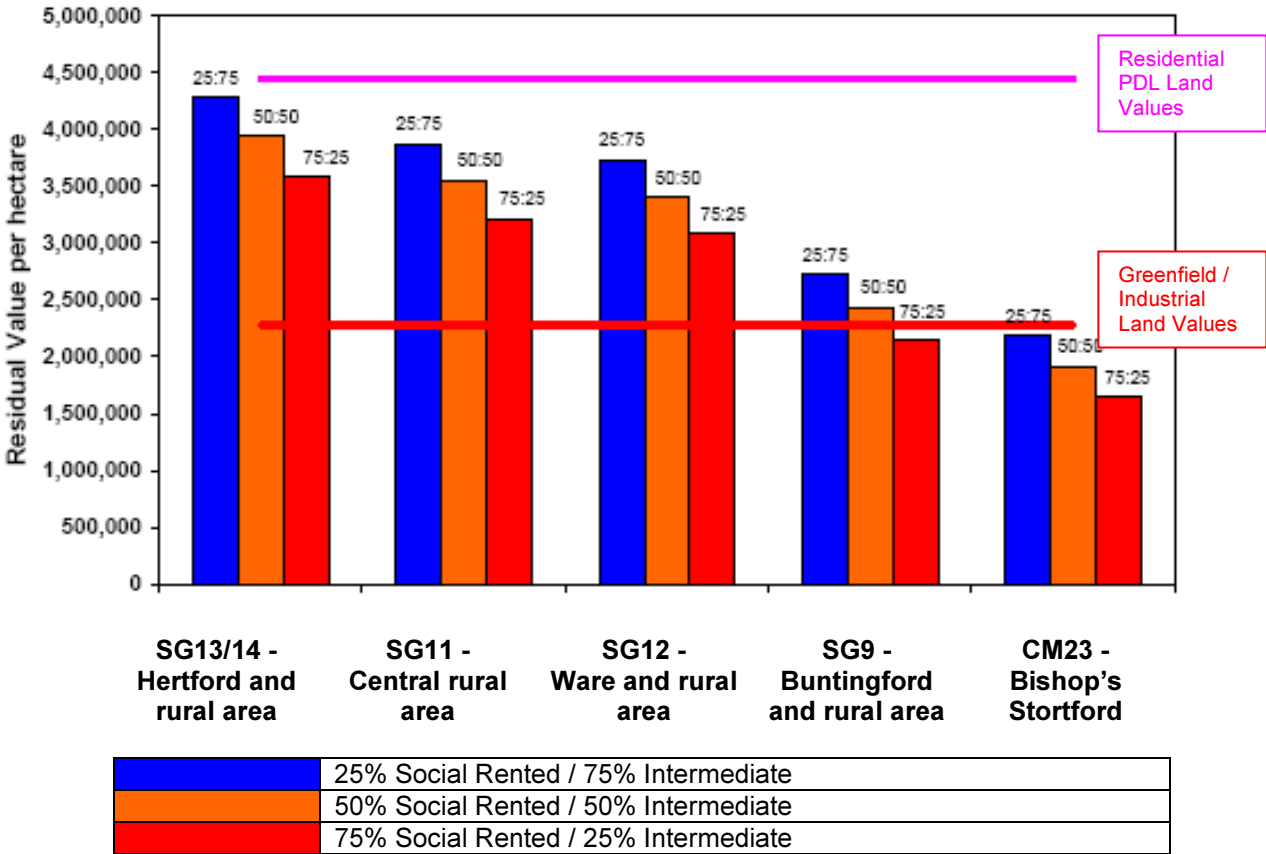
2.13 The design of a scheme e.g. proposed size and types of dwellings can also affect viability. Figure 3 shows the effect of different development densities on schemes across East Herts. As can be seen, on larger sites (e.g. 100 dwellings) in all postcode areas at 35% affordable housing provision, the optimum density is 50 dwellings per hectare.

Figure 3: Effect of Different Development Densities (35% Affordable Housing)



2.14 Figure 4 shows the effect of affordable housing tenure mix on scheme viability. As can be seen, increasing the proportion of intermediate affordable housing (as opposed to social rented affordable housing) can improve scheme viability. This is because intermediate affordable housing results in a lower reduction in values (see Figure 1) than social rented affordable housing.

Figure 4: Effect of Different Tenure Mixes on Viability



2.15 The study makes the following recommendations in respect of affordable housing planning policy in East Herts:

Site Size Threshold

2.16 A site size threshold of 5 dwellings can provide developable, deliverable sites with affordable housing. Current affordable housing site size thresholds are 15 dwellings in the six main settlements and 3 dwellings in Category 1 and 2 Villages. Given the findings of the study, it may be advisable to adopt a more straightforward 5 dwelling threshold in all areas of the district.

Affordable Housing Target

2.17 On sites of 5-14 units, a maximum of 30% affordable housing is likely to be achievable, reducing to 10% for higher density schemes.

On sites of 15 units and above, a single target of up to 40% is likely to be achievable. In both cases, the policy should be applied flexibly taking into account market conditions, postcode area, density and other planning requirements.

Strategic Sites

- 2.18 Sites of 1,500 and 3,000 dwellings were also assessed in East Herts. In respect of the viability of larger strategic sites, two points should be noted. Firstly, that larger sites will be developed across a number of years over the medium to long term rather than at a single point in an economic cycle. Secondly, larger sites have the potential to create their own value area which could affect viability compared to the postcode areas assessed in the study. For sites of both 1,500 and 3,000, 10% affordable housing may be viable with 35% achieved later in the period to 2026.

3.0 Implications/Consultations

- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

- The Executive Summary is attached as **Essential Reference Paper B**. An electronic copy of the full report including appendices is available online at www.eastherts.gov.uk/shmava. Hard copies can be made available for Members on request from the Planning Policy Team. Public inspection copies are available at reception at the Council's offices in Hertford and in Bishop's Stortford.
- Conclusions in respect of East Herts (Pages 254 - 265 of the Final Report) are attached as Essential Reference Paper C.
- LCB (East)/M11 Sub-region Strategic Housing Market Assessment January 2010, ORS Ltd, available online at www.eastherts.gov.uk/shma.
- LDF Executive Panel Report by Executive Members for Planning Policy and Transport and Housing and Health, 28th January 2010 - Agenda Item 5: "Strategic Housing Market Assessment Final Report and Viability Study Update", <http://www.eastherts.gov.uk/index.jsp?articleid=12717>
- Strategic Housing Market Assessments Practice Guidance - Aug 2007, (Communities and Local Government), <http://www.communities.gov.uk/publications/planningandbuilding/strategichousingmarket?view=Standard>
- Planning Policy Statement 3: Housing (PPS3), November 2006

(Communities and Local Government),

<http://www.communities.gov.uk/planningandbuilding/planning/planningpolicyguidance/planningpolicystatements/planningpolicystatements/pps3/>

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ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):	<p>Caring about what's built and where <i>Care for and improve our natural and built environment.</i></p> <p>Shaping now, shaping the future <i>Safeguard and enhance our unique mix of rural and urban communities, ensuring sustainable, economic and social opportunities including the continuation of effective development control and other measures.</i></p> <p>Leading the way, working together <i>Deliver responsible community leadership that engages with our partners and the public.</i></p>
Consultation:	N/A
Legal:	N/A
Financial:	The Study, costing £29,700, was undertaken at no cost to East Herts Council. It was funded from the Government's Growth Area Fund 3: Programme of Development (POD).
Human Resource:	N/A
Risk Management:	A SHMA is required by Planning Policy Statement 3: Housing (PPS3) and is a key technical study of the Core Strategy evidence base. Failure to not have a SHMA or to have a SHMA that is not fit for purpose would result in the Core Strategy being found 'unsound' at examination.