



VIABILITY UPDATE

For Uttlesford District Council

By Level

March 2012



Contents

1.0	Introduction	3
2.0	Market Scenarios	4
3.0	2011-2015 Affordable Homes Programme – Framework	7
4.0	Draft National Planning Policy Framework	9
5.0	Changes to the Definition of Zero Carbon Homes	10
6.0	Conclusions	11



1.0 Introduction

- 1.1 In 2010 Levvel was appointed by the London Commuter Belt (East)/M11 Sub Region comprising Brentwood Borough Council, East Hertfordshire District Council, Epping Forest District Council, Harlow Council and Uttlesford District Council to undertake an Affordable Housing Viability Assessment. The purpose of the study was to undertake a strategic assessment of development viability to inform planning policy over the lifetime of each Local Planning Authority's Core Strategy. The report was completed in August 2010 and a copy of the report and appendices can be found at:
<http://www.uttlesford.gov.uk/main.cfm?Type=PLCSD&MenuId=1102#Viability>
- 1.2 For a policy to be robust and reliable throughout the lifetime of a Core Strategy Levvel recognised that it was necessary to use a methodology that is "future proofed" as far as possible. As viability is reliant on the interaction between changing costs and revenues of housing over time, it follows that this relationship must be accounted for by future proof testing. Levvel therefore addressed this issue by applying inflation rates for cost inputs throughout the Core Strategy period. For values, Levvel assessed value changes based on the historic performance of the housing market to give a view of where values may be in the future if the past housing market cycle was typical. Levvel recognised this does not provide the necessary comfort or margin for error should the cycle vary and therefore comprehensive testing of scenarios, based on an upside, middle and downside view of the housing market, were undertaken.
- 1.3 In March 2012, Uttlesford District Council requested that Levvel undertake an 'update' of the 2010 study in order to assess:
- a. How do current market conditions compare with the upside, middle or downside market scenarios assessed in the 2010 study;
 - b. Provide commentary on the potential impact on development viability of the introduction of the 2011-2015 Affordable Homes Programme – Framework and the associated changes to Annex B of Planning Policy Statement 3: Housing June 2011;
 - c. Provide commentary on the impact of the National Planning Policy Statement published on the 27 March 2012;
 - d. Provide commentary on the changes to the definition of zero carbon homes, announced in May 2011 and the associated potential impact upon the likely costs associated with the mandatory requirement for all residential dwellings to achieve Code for Sustainable Homes Level 6 in 2016.
- 1.4 It should be considered that this study is based upon current market conditions and therefore represents a potential 'snap shot' of market conditions as they compare to the three market scenarios (upside, middle and downside) assessed to inform the 2010 study.



2.0 Market Scenarios

Property Market Scenarios

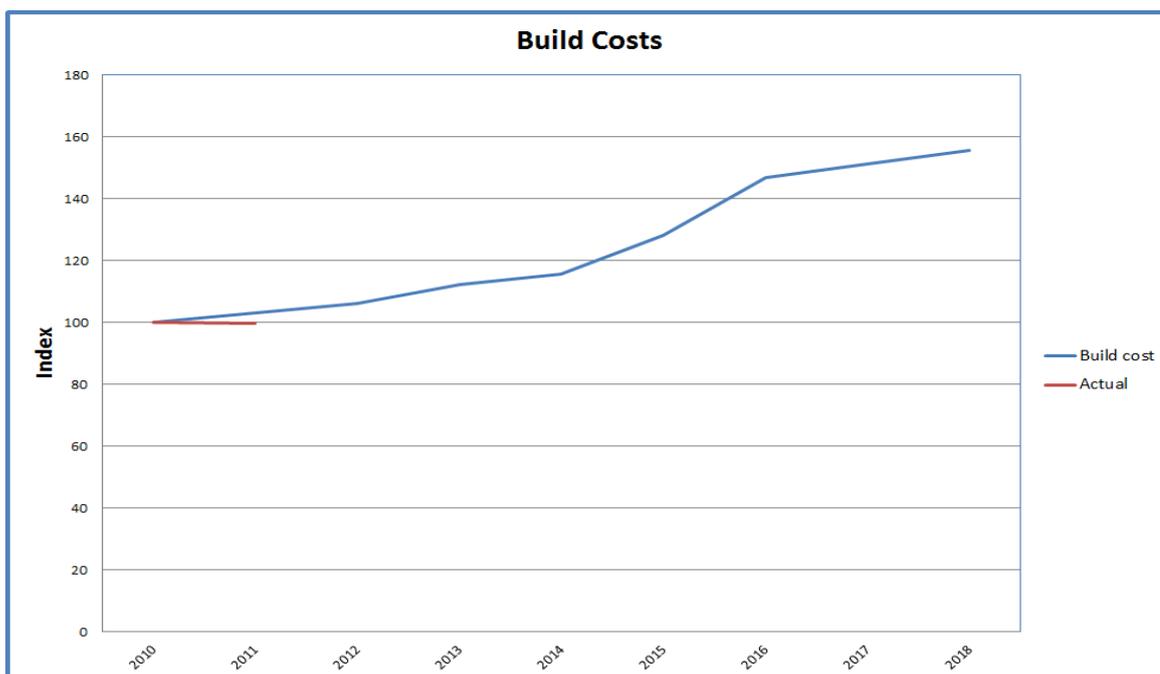
- 2.1 The graph below reproduces the market scenarios (upside, middle and downside) that were assessed and tested for the 2010 Affordable Housing Viability Assessment. Also included on this graph is an 'Actual' line which shows the actual movement of the housing market from 2010 to date. The 'Actual' line has been informed by reference to the Land Registry House Price Index Report for Essex.



- 2.2 The graph shows that property market performance to date is broadly in line with the middle scenario.

Build Costs

- 2.3 The graph below reproduces the build cost scenario that was assessed and tested for the 2010 Affordable Housing Viability Assessment. Also included on this graph is an 'Actual' line which shows the actual movement in the build costs for Uttlesford from 2010 to date. The 'Actual' line has been informed by reference to the Royal Institute of Chartered Surveyors Build Cost Information Service.



2.4 The graph shows that build cost inflation is broadly in line with that assessed for the 2010 Affordable Housing Viability Assessment.

Retail Price Index

2.5 The graph below reproduces the performance of the retail price index (RPI) that was assessed and tested for the 2010 Affordable Housing Viability Assessment. Also included on this graph is an 'Actual' line which shows the actual movement in the retail price index from 2010 to date. The 'Actual' line has been informed by reference to the Consumer Price Indices produced by the Office for National Statistics (which include detail regarding RPI).



2.6 The graph shows that Retail Price Inflation has increased at a greater rate than assessed within the 2010 Affordable Housing Viability Assessment. The main impact of this higher rate of increase will be on the calculation of social rent levels. The formula for increasing social rent levels is linked to performance of the retail price index with maximum annual rent increases set at $RPI + 0.5\% + £2$ per week. It follows thus that social rent levels at this point in time are likely to be higher than those forecast within the 2010 Affordable Housing Viability Assessment.



3.0 2011-2015 Affordable Homes Programme – Framework

- 3.1 In February 2011 the Coalition Government published the 2011-2015 Affordable Homes Programme – Framework. This document set out the Government’s propositions regarding the way social housing is delivered. One of the key aspects of the framework was the introduction of Affordable Rent as a new social housing tenure.
- 3.2 In June 2011 Planning Policy Statement 3: Housing was reissued to provide technical amendments to Annex B: Definitions, to reflect the introduction of Affordable Rent. The definition of affordable housing therefore includes intermediate, affordable rented and social rented units and is expanded upon in Annex B.
- 3.3 Annex B contains a definition for the new Affordable Rent tenure. This is confirmed as being:
- "Rented housing let by registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is not subject to the national rent regime but is subject to other rent controls that require a rent of no more than 80 per cent of the local market rent."*
- 3.4 The Framework document also introduced a new delivery model, seeking to reduce the amount of public subsidy (grant) provided through the conversion of existing assets from social rent to Affordable Rent. The document also signalled that funding for the period of the framework would be predominantly in respect of Affordable Rent with limited funding available for affordable home ownership and social rented dwellings.
- 3.5 Paragraphs 5.14 – 5.19 of the framework set out expectations in relation to the delivery of affordable housing on S106 schemes. Paragraph 5.14 sets out the expectation that *'S106 schemes can be delivered at nil grant input for both affordable home ownership and for Affordable Rent'*. Paragraphs 5.15-5.16 set out the assumptions made as to how the affordable housing receipt on S106 sites will be calculated for Affordable Rent and affordable home ownership products. Paragraph 5.15 states, for Affordable Rent *'our assumption is that the price paid will be no more than the capitalised value of the net rental stream of the homes'*.
- 3.6 Turning to the Affordable Housing Viability Statement 2010 undertaken by Level, the methods of calculating affordable housing receipt within that report are identical to those set out in the paragraphs 5.15 – 5.16 of the framework document with the important distinction that social rent levels for the District were assessed rather than Affordable Rent levels.
- 3.7 Weekly social rent levels assessed for Uttlesford in the 2010 report were as follows:
- 1 bed - £64.95;



- 2 bed - £81.60;
 - 3 bed - £92.93;
 - 4 bed - £106.76;
 - 5 bed - £112.50.
- 3.8 From the gross annual rent the following deductions were made in respect of management - £500 per annum, maintenance - £600 per annum, void allowance – 2.5% and a major works allowance of 0.8%. The resulting income stream was capitalised with a yield of 6.5%.
- 3.9 Indicative weekly affordable rent levels in Uttlesford are potentially in the region of:¹
- 1 bed - £102.50
 - 2 bed - £123.00
 - 3 bed - £151.00
 - 4 bed - £212.00
- 3.10 Assuming the same level of deductions from the gross annual rent, and the same yield on the resulting net income stream the affordable housing receipt is very likely to be at levels higher than those assessed within the 2010 study.
- 3.11 The higher levels of affordable housing receipt that may potentially be generated through the introduction of Affordable Rent are thus likely to have a positive impact on development viability and be higher than the levels assessed within the 2010 study.
- 3.12 It should also be noted that the baseline position assessed for Uttlesford within the Affordable Housing Viability Statement 2010 was on the basis of nil grant availability.

¹ As predicted by the East of England Local Government Association and subject to variation dependent upon Broad Rental Market Area.



4.0 Draft National Planning Policy Framework

- 4.1 Issued on March 27th 2012, the National Planning Policy Framework (NPPF) sets out the Coalition Government's planning policies for England and how these are expected to be applied. It is a material consideration. Annex 3 lists the documents revoked and replaced by the Framework. The Framework sets out what is considered to be relevant, proportionate and necessary within which Council's and local people can produce their own local and neighbourhood plans that are reflective of their communities.
- 4.2 At the heart of the NPPF is a presumption in favour of sustainable development as set out in paragraph 14.
- 4.3 In relation to housing and affordable housing, the government's objective of increasing the supply of all housing is restated, together with an aim to improve choice, widen opportunity for home ownership and create sustainable, inclusive and mixed communities.
- 4.4 Paragraph 158 of the NPPF deals with '*Using a Proportionate Evidence Base*' and requires that local planning authorities should '*ensure that the Local Plan is based on adequate, up-to-date and relevant evidence about the economic, social and environmental prospects of the area. Local planning authorities should ensure that their assessment of and strategies for housing, employment and other uses are integrated, and that they take full account of relevant market and economic signals*'.
- 4.5 Paragraphs 173-177 relate to viability and deliverability, paragraph 173 stating, '*Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and 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 costs of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable*'.
- 4.6 The Affordable Housing Viability Assessment undertaken by Levvel in 2010 meets the relevant requirements as set out in the NPPF. If however the cumulative burden of policy is greater than the assumptions made within the Affordable Housing Viability Assessment 2010 then reassessment may become necessary (see NPPF paragraphs 47 and 174).



5.0 Changes to the Definition of Zero Carbon Homes

- 5.1 In May 2011 the Department for Communities and Local Government published a Zero Carbon Homes Impact Assessment. The purpose of the document was to announce a new definition of zero carbon homes and thus give direction to the house building industry to the anticipated requirements for new build homes in 2016 and onwards. To provide context 2016, is the year in which Code for Sustainable Homes Level 6 becomes a mandatory requirement for new build homes.
- 5.2 In the 2010 Affordable Housing Viability Assessment, Levvel accounted for uplifts to build costs associated with the introduction of the various Code for Sustainable Homes requirements by applying an uplift from base build costs on a pounds per m2 basis uplift in the relevant year of implementation². The following table outlines the cost adjustments (pounds per m2) for levels 3 to 6 of the Code for Sustainable Homes used:

	Flats (£) per m2	Houses (£) per m2
Code 3:	50	43
Code 4:	103	101
Code 5:	208	191
Code 6:	360	335

- 5.3 The changes to the definition of zero carbon homes announced in 2011 are likely to impact upon the costs associated with the achievement of Code for Sustainable Homes Level 6. The Zero Carbon Homes Impact Assessment published May 17th by the Department of Communities and Local Government states in paragraph 3 the cost of achieving zero carbon homes using the new definition '*could be in the region of £3,000 to £8,000 per house by the time the policy starts to have an effect, depending on the dwelling type (for example just over £4,000 for a typical semi-detached house built in 2017). These are significantly reduced costs from the previous definition of the policy – which had costs of £8,000 to £12,500 per house.*'
- 5.4 The introduction of the new definition of zero carbon is thus likely to have less of an inflationary impact upon build costs associated with the achievement of Code for Sustainable Homes Level 6 than was assessed within the 2010 Affordable Housing Viability Assessment.

² Figures based upon findings of 'Cost Analysis of the Code for Sustainable Homes: Final Report' July 2008 Communities and Local Government



6.0 Conclusions

- 6.1 The current housing market conditions within Uttlesford broadly resemble the middle scenario as assessed within the Affordable Housing Viability Assessment 2010. The Retail Price Index assessed is higher than that assessed within the Affordable Housing Viability Assessment 2010 however the main impact of this is that social rent levels are likely to be slightly higher currently than forecast.
- 6.2 The introduction of the Affordable Homes Programme - Framework 2011 is likely to have the following impacts:
- The reduction in grant availability makes it more likely that the baseline position (nil grant) as assessed within the Affordable Housing Viability Assessment 2010 is likely to be more relevant in the near future than the sensitivity testing undertaken for Uttlesford on a 'with grant' basis;
 - The introduction of Affordable Rents at the indicative levels for Uttlesford as outlined previously are in excess of those assessed within the Affordable Housing Viability Assessment 2010 and are likely to have a positive impact upon development viability.
- 6.3 The Affordable Housing Viability Assessment 2010 remains currently robust and meets the requirements of the National Planning Policy Framework March 2012.
- 6.4 The change to the definition of zero carbon homes announced in 2011 may result in lower costs associated with achieving Code for Sustainable Homes Level 6 (which will become a mandatory requirement in 2016) than those assessed within the Affordable Housing Viability Assessment 2010.
- 6.5 The recommendations for Uttlesford as set out in paragraphs 13.180 – 13.184 of the Affordable Housing Viability Assessment 2010 remain valid. For ease of reference these are reproduced below:
- 6.6 *It is essential that any district-wide affordable housing policy is not unduly rigid and can be applied flexibly and pragmatically allowing development to come forward while meeting the needs of the community. It will be necessary to consider sites on an individual basis having due regard to the planning benefits of granting permission. The basic parameters for enabling such decisions to be made including those of viability should be set out within a Supplementary Planning Document.*
- 6.7 *The limitations of assessing economic viability on strategic sites within the framework of a District-wide viability assessment undertaken to inform policy have been outlined within this study. We would recommend that more detailed analysis of strategic development locations is undertaken in order to clarify the council's requirements on sites of this nature and identify the approach to viability. This is particularly pertinent as development on such sites will account for a very significant proportion of new development within the District over the life of the*



Core Strategy. Such work could be set out in a Supplementary Planning Document or Area Action Plan.

- 6.8 *A site size threshold of five units can produce developable, deliverable sites with affordable housing. However the exact level will have to be determined at the point of planning application having due regard to the value area, density, and the potential alternative/existing uses of the site. Our analysis has shown significant differences in the amount of affordable housing that these sites can deliver depending upon the type of land that is being developed. Sites coming forward with an existing industrial/greenfield use are more likely to be able to support affordable housing than those with an existing residential use.*
- 6.9 *Our analysis has shown that a maximum of 30% affordable housing is likely to be achievable. This reduces to 10% affordable housing on higher density schemes. As small sites are particularly susceptible to even minor increases in costs or unforeseen development encumbrances, we would suggest that any policy on sites below 15 units is flexible enough to ensure that sites of this size continue to come forward for residential development. This is particularly relevant as small sites below 15 units have not previously been expected to provide any affordable housing.*
- 6.10 *On general development sites we would recommend that the Council adopt a single District-wide affordable housing target of up to 40% on sites above 15 units on the basis that this is applied flexibly and from a realistic perspective taking into account market conditions, value areas, density and other planning and infrastructure requirements³.*
- 6.11 *The Suggested Text and Policy HO6 on pages 45-46 of the document 'Public Participation on Development Plan Document, Development Management Policies, January 2012, Uttlesford District Council' is consistent with this evidence base.*

³ Extract from London Commuter Belt (East)/M11 Sub Region Affordable Housing Viability Assessment 2010, Levvel