

Report to the Local Development Framework Cabinet Committee



**Epping Forest
District Council**

Report reference: LDF-011-2010/11
Date of meeting: 4 October 2010

Portfolio: Leader

**Subject: Strategic Housing Market Assessment - Viability Assessment
Final Report**

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Recommendations/Decisions Required:

(1) To note the findings of the completed “Strategic Housing Market Assessment : Viability Assessment” report, and add this into the evidence base to support the preparation of the Local Development Framework.

Executive Summary:

The Strategic Housing Market Assessment (SHMA) was completed in January 2010. A further viability assessment is required to consider the deliverability of affordable housing throughout the district. The viability assessment considers the likely trends in the housing market, and uses a residual land value model to make assessments of the viability of affordable housing delivery on a range of site types across the district. In combination, this information will be used to inform the preparation of new Local Development Framework policies for affordable housing.

This is the first part of a two stage process to fully assess the viability of delivery of affordable housing. This assessment is intended to be strategic in approach and establish the principles of delivery. Site-by-site analysis will be required at a later date as potential development sites emerge via the LDF.

Reasons for Proposed Decision:

The SHMA is an important part of the evidence base to underpin the preparation of the Core Strategy. This new evidence will help to achieve corporate objectives of increasing the provision of affordable housing in the district, and guide strategies in relation to other types of housing provision. A key requirement of the LDF is to ensure that the adopted policies are deliverable, and this piece of evidence will help demonstrate that the levels of affordable housing sought across the district are viable throughout the plan period.

Other Options for Action:

This study has been undertaken to inform the preparation of the Local Development Framework, and is based on publically available technical and statistical information and engagement with the house building industry. Without such a study, any housing policies in the Local Development Framework would be found unsound at Examination stage, and therefore there are no reasonable alternative options.

Report:

Introduction

1. Planning Policy Statement 3: *Housing* sets out that policies in Local Development Frameworks relating to the provision of affordable housing should be based on robust evidence of need and the operation of housing market areas. The required evidence is provided by the Strategic Housing Market Assessment (SHMA), which was completed in January 2010. These reports, and its key findings, were the subject of a report to the LDF Cabinet Committee on 17 June 2010. To support the SHMA an assessment of the viability of the delivery of affordable housing throughout the plan period is also required.

2. In December 2009, Levvel were appointed to undertake a Viability Assessment of the findings of the SHMA. This work is being carried out on behalf of Epping Forest, Harlow, Uttlesford and East Herts District Councils and Brentwood Borough Council. Broxbourne Borough Council were also part of the SHMA partnership, however the timetable for their Core Strategy did not permit them to be part of this further piece of joint work.

3. The Local Development Framework will be required to contain policies both in respect of the general provision of affordable housing, and at a site specific level. The Viability Assessment considers only the general provision of affordable housing for the Core Strategy plan period. Detailed work on the provision of affordable housing at a site specific level will be included as part of the Strategic Housing Land Availability Assessment (SHLAA), and any subsequent land allocations that are made.

4. Levvel was asked to present their methodology and key findings to officers and members of the five partner authorities on 1 September 2010. Given the space restrictions in accommodating a potentially large number of attendees, EFDC Member invitations were restricted to the Cabinet, the Chair and Vice-Chair, and Group Leaders (or their nominees). The Executive Summary of the assessment is at Appendix 1.

Methodology

5. For the purposes of this work, Levvel have developed their own "Development Viability Model". This is a residual land value model, where the appraisals consider the income from a development in terms of sales or rental returns and compare this with the costs associated with developing that scheme. The amount left over, or residual, is what is left for land acquisition i.e. the residual value. This approach suggests that land will only come forward with an affordable housing element when the overall site value exceeds the existing or alternative use value. A number of assumptions have been made relating to land values, build costs, planning gain requirements, profit and development finance. Engagement with the development industry to discuss these assumptions was achieved by using a questionnaire and two workshop sessions. Further sensitivity testing has also been carried out which considers the percentage of affordable housing sought, tenure requirements, increased/decreased levels of planning gain and the availability of public subsidy.

6. As this Viability Assessment needs to provide a robust consideration of deliverability over the plan period, Levvel have sought to "future proof" the model as much as possible. A robust assessment will not be achieved by providing only a "snapshot" of the current position. Levvel's model uses the historic performance of the housing market to project future values. As the housing market is volatile, and will be unlikely to exactly follow previous patterns, "downside", "middle" and "upside" economic scenarios have been included. It is possible that throughout the plan period, the housing market will fluctuate between these three scenarios.

- (i) “Downside” – assumes that the market will continue to fall, with stabilisation at 30% below the market trend;
- (ii) “Middle” – assumes a steady decline in values over the short-term with recovery to 2007 values by about 2017; and
- (iii) “Upside” – assumes a rapid re-correction of values to 2007 levels and then a future performance trend similar to 1992-2003.

7. The Viability Assessment is designed to be implemented at a district level, reflecting the needs of the LDF system. Within each local authority area, there are different “value areas” which have been considered at a post code level. Whilst the intention is for this study to be used to underpin a blanket affordable housing policy in forthcoming LDF documents, it is important that the variations in value across each area are identified and tested. In Epping Forest District, six value areas were identified (Appendix 2) and the provision of affordable housing within these areas was tested.

8. The assessment also considered a range of notional housing sites, selected following analysis of previous developments. These notional housing sites were tested at a range of densities, again determined according to previous trends and information available in each authority’s 5-year assessment of housing land supply. For Epping Forest, the following sites were tested:

- 15 unit site at 30 dwellings per hectare (dph), 50 dph & 70 dph;
- 50 unit site at 30 dph, 50 dph, 70 dph, 100 dph & 120 dph;
- 150 units site at 30 dph, 50 dph & 70 dph;
- A single strategic site of 1,500 units at an average density of 40dph; and
- Sites of 5-14 units at 30 dph, 50 dph & 70 dph.

9. The SHMA found that over 70% of all new housing should be affordable (this includes both social rented and intermediate housing). It was not considered reasonable to start at such a high figure, and the assessment took the target in the East of England Plan as a starting point. Policy H2 of the (now revoked) EEP identified that 35% of all housing across the region should be affordable. The proportion of affordable housing was varied higher or lower depending on the outcome of the initial analysis.

10. The proportions of social rented and intermediate housing types also affect the amount of affordable housing that can be achieved. A range of tenure mixes was tested for each authority area, using both the existing policy position and the recommendations of the SHMA. For Epping Forest, the tenure mixes tested were:

- (a) 70% social rented : 30% intermediate (in accordance with existing policy);
- (b) 60% social rented : 40% intermediate; and
- (c) 50% social rented : 50% intermediate.

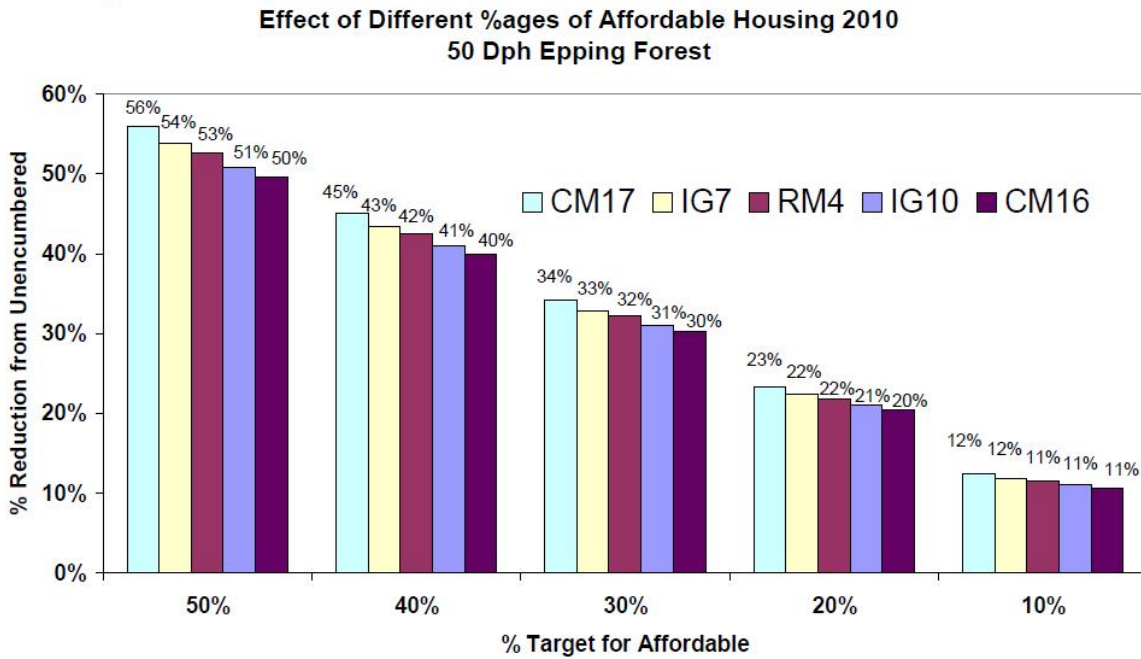
Study Findings

11. The findings and recommendations of this assessment will be used to inform the preparation of the Local Development Framework and the Strategic Housing Land Availability Assessment (SHLAA). This study is the first part of a two-stage process to test the viability of the provision of affordable housing. Further detailed assessment of viability on a site-by-site basis will be required to complete the SHLAA. In Epping Forest District it has been found that across the plan period, it will be reasonable to seek 40% affordable housing on sites of 15

units and above.

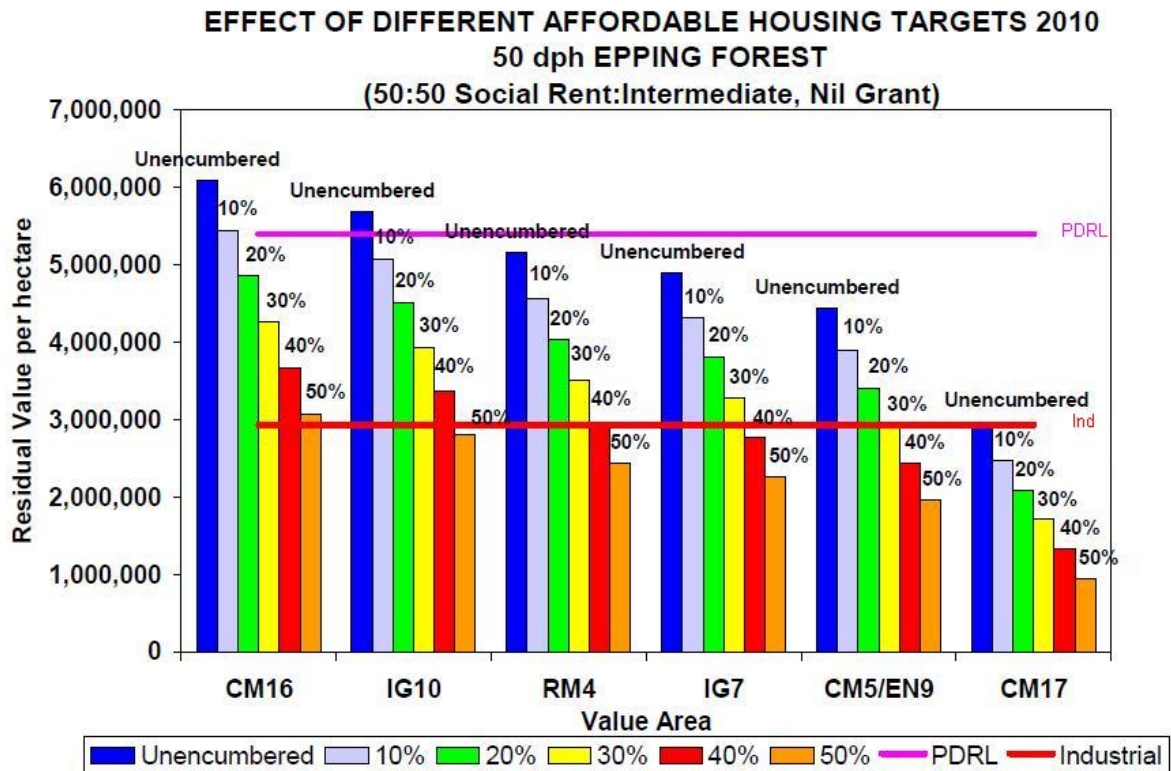
12. Hundreds of permutations of the variables have been tested across the value areas for each district, to determine the level of affordable housing that can be achieved throughout the plan period. Figure 1 shows the impact of the provision of different levels of affordable housing across the value areas identified in the District. This shows that the impact of provision of affordable housing is less in the higher value areas. For example in the CM16 value area a requirement for 50% affordable housing would cause a reduction in scheme value of 50%, but in the CM17 area the reduction would be 56%.

Figure 1



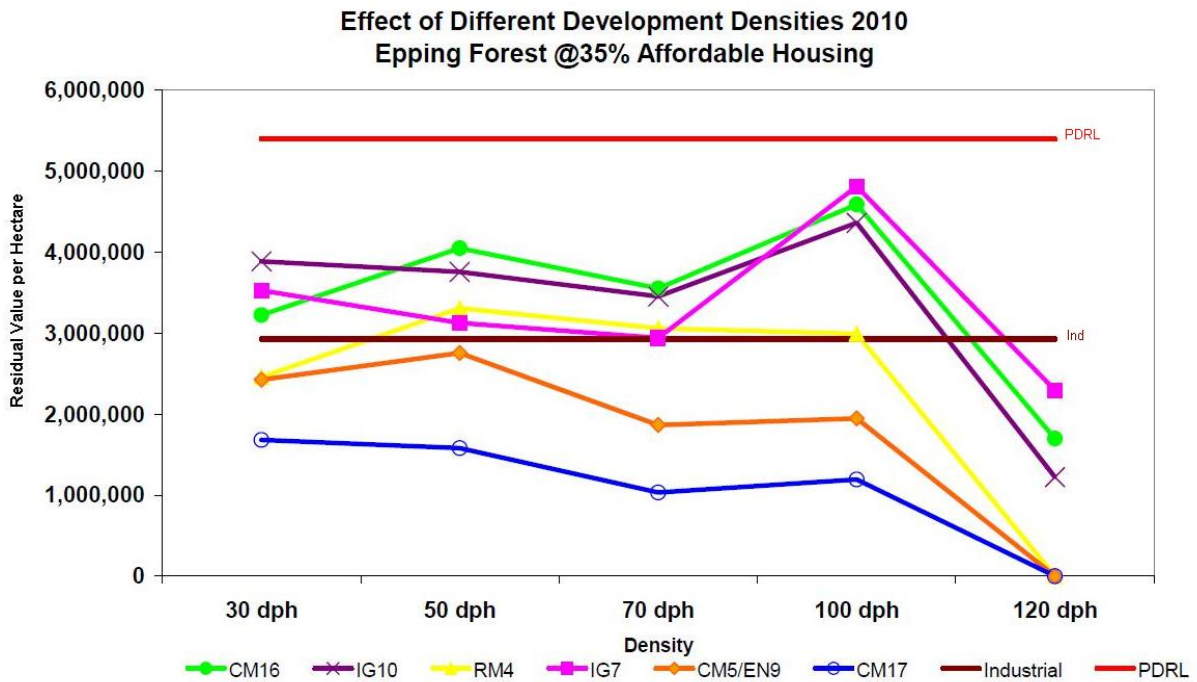
13. The model developed by Levvel focuses on the relationship between residual land value and scheme value. Figure 2 shows the residual land value against previously developed residential land (PDRL) and Greenfield/industrial land at a range of affordable housing levels at current values. In comparison to some of the other areas in the sub-region, the provision of affordable housing in Epping Forest is less challenging. However, there are still instances where grant funding will be necessary to bring forward any affordable housing (CM17).

Figure 2



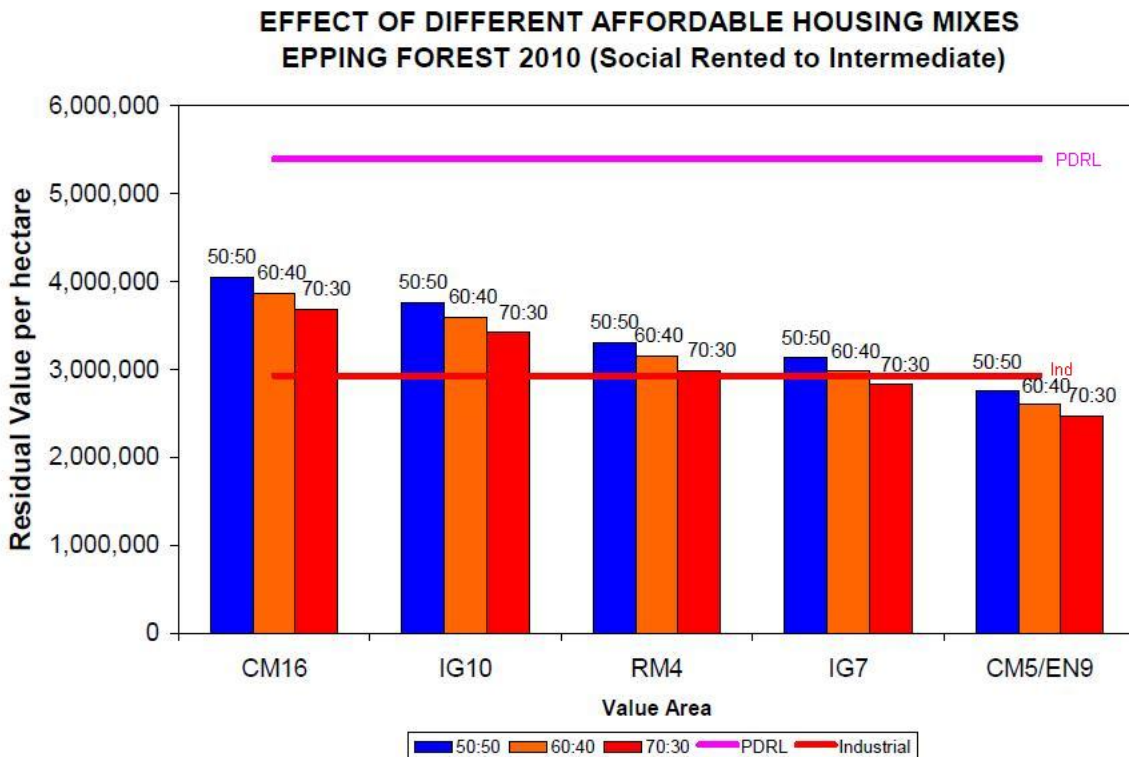
14. The density of development has an impact on the delivery of affordable housing, and through testing of a series of notional sites, it can be seen (Figure 3) that there are different optimal densities for schemes in different parts of the district. In the more urban areas (IG7, IG10 & CM16) the optimal density is 100 dph. In the more rural areas (RM4, CM5/EN9 & CM17) the optimal density in terms of residual land value is 50 dph. It is also important to note, that whilst this study may suggest optimal densities in terms of the provision of affordable housing, in preparing planning policies for the district a wide range of factors will need to be considered, and a balance struck between the Council's priorities.

Figure 3



15. Finally, tenure mix is considered. This shows that a higher proportion of intermediate housing may assist delivery of affordable housing. However, as above, a balance will need to be struck on a site-by-site basis on the Council's priorities.

Figure 4



16. On smaller sites (5-14 units), more flexibility is required as the level of affordable housing that could be achieved varies between 10-30% depending on the density of development. The report is clear that there may be instances when the housing market will be unable to deliver these levels, and that policies should be flexible enough to accommodate such variance. Site-by-site appraisal of viability is still likely to be necessary, both as part of the preparation of the Strategic Housing Land Availability Assessment (SHLAA) and when planning applications are submitted.

17. A notional strategic site has been tested (1,500 units at an average density of 40dph). Whilst a strategic development site in the district could be larger than 1,500 units, testing a scheme at this level allows for the impact of significant infrastructure investment to be taken into account, whilst still acknowledging the likely phasing of delivery. This approach can also be used to reflect that a new development of a strategic nature may create its own value area, and therefore the percentage of affordable housing sought throughout the delivery of the whole scheme may vary.

18. The assessment finds that it should be possible to achieve an overall contribution of 35% affordable housing in four of the six value areas (CM16, RM4, IG10 & IG7), whilst making an allowance of £30,000 per unit for s106 / infrastructure contributions. In the CM5/EN9 value area 35% affordable housing is likely to be achievable if a lower s106 contribution (£20,000) is included. Finally, in the lowest value area (CM17) a significantly lower proportion of affordable housing can be delivered – 15% with £20,000 per unit s106 contributions.

19. For all of the findings of the report, regular monitoring of the position of the housing market will be required. It is suggested this should be presented in the Annual Monitoring Report.

Study Recommendations

20. The assessment makes a series of recommendations based on the findings summarised above.

Site Thresholds

21. The assessment recommends that the general threshold for the provision of affordable housing should remain at 15 units. In considering smaller sites, it is recommended that the lowest threshold at which affordable housing should be sought is five units. This differs from the current policy position, in which the threshold is variable according to site location and land type. It is considered a single approach to the treatment of small sites will be clearer, and easier to implement than the current approach.

Percentage Sought

22. For general development sites the assessment recommends that the current policy requirement of 40% affordable housing should remain. On smaller sites a more flexible approach may be required, to take into account the variation in viability found by the assessment.

Resource Implications:

The cost of this project is £29,700, and has been funded from the government's "Programme of Development" fund.

Legal and Governance Implications:

None relevant.

Safer, Cleaner and Greener Implications:

None relevant at this time.

Consultation Undertaken:

Key stakeholder events were undertaken through the preparation of the SHMA & the viability assessment.

Background Papers:

- London Commuter Belt (East) / M11 Sub-Region – Strategic Market Housing Assessment, January 2010 – Opinion Research Services / Savills; and
- London Commuter Belt (East) / M11 Sub-Region – Viability Assessment – September 2010 – Level.

Impact Assessments:Risk Management

Some earlier SHMAs prepared by other authorities were found to be unsound because viability had not been assessed. This significant risk will be addressed by the supplementary report now completed.

Equality and Diversity:

Preparation of the Local Development Framework as a whole will be subject to an initial Equality Impact Assessment in October 2010, with additional assessments carried out as necessary as the process moves forward.

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.