

# Appendix 1

## Executive Summary

### The Brief

Levvel has been 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 is to undertake a strategic assessment of development viability that will inform planning policy over the lifetime of each Local Planning Authority's Core Strategy.

### Policy Background

#### National

The requirement to undertake viability assessments is derived from national policy guidance set out in PPS3 Housing<sup>1</sup> and the Government's housing policy statement 'Delivering Affordable Housing'<sup>2</sup>.

Paragraph 29 of PPS3 sets out the requirements for the development of affordable housing policy. It requires that affordable housing targets should reflect an assessment of the likely economic viability of land within an area, taking account of risks to delivery and drawing upon informed assessments of the likely levels of finance available for affordable housing and the level of developer contributions that can reasonably be secured.

#### Regional and Sub Regional

This report was undertaken prior to the General Election May 6th 2010. On 6th July 2010 the Secretary of State for Communities Eric Pickles announced the revocation of Regional Spatial Strategies. We have however retained references within this report to Regional Strategies.

The East of England Plan, the revision to the Regional Spatial Strategy (RSS) for the East of England, was published on 12th May 2008. Policy H1 makes provision in the region for at least 508,000 dwellings from 2001 to 2021. Appendix 2 to the RSS outlines minimum dwelling provision in each of the five commissioning London Commuter Belt authorities. Policy H2 sets out the region's affordable housing policy. Within the requirements of Policy H1, Development Plan Documents should set appropriate targets taking into account RSS objectives, affordable housing need, Strategic Housing Market Assessments. In addition, evidence of affordability pressures, the Regional Housing Strategy and the need where appropriate to set specific, separate targets for social rented and intermediate housing. Policy H2 also states, 'at a regional level, delivery should be monitored against the target for some 35% of housing coming forward through planning permissions granted after publication of the RSS to be affordable'.

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<sup>1</sup> Planning Policy Statement 3: Housing, DCLG, November 2006

<sup>2</sup> Delivering Affordable Housing, DCLG, November 2006

The London Commuter Belt (East)/M11 Sub Region Strategic Housing Market Assessment 2008 Study Report on Findings was completed in January 2010. The report provides a great deal of detailed information on unit size and mix requirements by Local Authority Area. Figure 152 in the report provides a summary of the overall housing requirement main findings by tenure and Local Authority Area.

## **Local**

### Brentwood

The Brentwood Replacement Local Plan was formally adopted by the Council in 2005. The Council's affordable housing policy H9 seeks to negotiate 35% affordable housing (30% social rented, 5% other affordable housing) on all suitable sites above the thresholds of 20 units and above or on suitable residential sites of 0.66 hectares or more within the Brentwood Urban Area, and on sites of 5 units and above or on suitable sites of 0.16 hectares or more within defined settlements elsewhere in the Borough.

### Epping Forest

The Epping Forest Local Plan Alterations were adopted in 2006. Policy H5A states that 'On all suitable development sites the Council will seek an appropriate number and type of affordable dwellings'. Policy H6A sets the thresholds for affordable housing. For residential or mixed use development in settlements with a population of greater than 3,000, affordable housing is required where the site is above 0.5 hectares or where 15 or more dwellings will be provided. In settlements with a population of 3,000 or less, affordable housing will be required for two or more dwellings on a greenfield site, and where the site is 0.1ha or larger. Affordable housing will also be required on previously developed sites with three or more dwellings.

Policy H7A deals with levels of affordable housing and seeks at least 40% affordable housing on all suitable sites in settlements with a population of 3,000 or greater. Where the population is less than 3,000, 50% affordable housing will be sought on Greenfield sites. On previously developed sites 33% affordable housing is sought for applications for three units and 50% for applications of four or more new dwellings.

### Harlow

The Harlow Replacement Local Plan was adopted in 2006. Policy H5 states that, "on residential development sites of 15 or more dwellings or 0.5 of a hectare or more irrespective of the number of dwellings, the Council will negotiate the provision of intermediate housing and/ or social rented housing, based on the prevailing housing needs assessment. The supporting text also notes that 30% is a baseline for negotiation by the Council.

The Affordable Housing Supplementary Planning Document was adopted in 2007. Although a negotiation baseline of 30% affordable housing was set through Policy H5 of the Local Plan, this figure predated the most up to date housing needs study (as of March 2007) and was based on a study from February 2000. A Housing Requirements Study was published in 2005 and a percentage of affordable housing was presented as a target for either a 5 or 10 year period. This varied between 42% for five years and 28% over ten years. The SPD then set the starting point at 33% affordable housing on eligible sites. A threshold of 15 or more dwellings or 0.5 a hectare or more applies.

## East Hertfordshire

The East Hertfordshire Local Plan Second Review 2007 was adopted by the Council on the 18th April 2007. It states the Council will seek to negotiate a target of up to 40% affordable housing on all suitable sites. Affordable Housing Policy HSG3 includes the above target and definition of affordable housing and sets the following site size thresholds:

- proposing 15 or more dwellings, or over 0.5 hectares, in the six main settlements; and
- proposing 3 or more dwellings, or over 0.09 hectares, in the Category 1 and 2 villages.

The Affordable Housing & Lifetime Homes Supplementary Planning Document was adopted in 2008. Paragraph 6.29 notes that 'the Council will now seek 40% affordable housing as a starting point. This will occur on suitable sites along with other contributions as set out in the Council's Planning Obligations Supplementary Planning Document 2008.

## Uttlesford

The Uttlesford Local Plan was adopted in January 2005. Local Plan Policy H9 sets a target of 40% affordable housing on appropriate allocated and windfall sites, having regard to the up to date Housing Needs Survey, market and site considerations. A site size threshold of 0.5 hectares or of 15 dwellings applies.

The Council formally consulted on the Core Strategy Preferred Options document from 30th November 2007 to 11th January 2008. Policy DC1 (Housing Need) outlines that the preferred option proposes that the current 40% target should be maintained applying to schemes of 15 units or more or sites of 0.5 ha or above. Any future policy will also take on board the outcomes of the Strategic Housing Market Assessment.

## Methodology

In undertaking this affordable housing viability assessment, we have assessed the viability of a range of housing developments across each Local Authority using a residual valuation appraisal tool of the kind recommended in the Government's Delivering Affordable Housing statement. This is then used as the base for testing future cost and value scenarios using upside, middle and downside housing market growth scenarios during the Local Development Framework period. These future assessments take account of changes to property values, inflation, construction, rent and land values over the same timescale.

Our assessment is based on the viability of delivering affordable housing across a range of notional sites. These notional sites were selected in consultation with each Council and with reference to work undertaken by each Local Planning Authority to determine land availability and supply. Sites have been classified within this report as small sites (below 15 units), strategic sites (sites of 1,000 units and above) and general development sites (sites of 15 - 250 units). Details of each notional site selected can be found in section 3 of this report.

The study considered affordable housing thresholds of 15, 10 and 5 units.

An assessment of the nature and extent of Value Areas within each Local Authority area was undertaken. In order to reflect these ranges in values, Hometrack data for each type of dwelling (detached, semi detached, terraced and flats and maisonettes) at a Postcode Area level (e.g. CM6, IG10) was used. In addition, this information was assessed against

information regarding asking prices and achieved sales values on a number of property websites including Rightmove and Mouseprice and independently assessed by Thornes Chartered Surveyors and Valuers, a valuer who has been engaged by Levvel to provide independent advice regarding the property and land values used for the purposes of this study.

In line with the Brief, and, in accordance with the expectations outlined in the adopted East of England Plan Policy H1, 35% affordable housing was assessed as a baseline. In cases where this was found to produce a result that was not viable, affordable housing percentages below this (down to as low as 5-10%) were tested. In cases where 35% was found to be viable, affordable housing percentages above this were tested (up to 50%). The affordable housing tenure mixes assessed vary between local authorities and have been determined following consultation with each local authority and with reference to the LCB East Sub Regional Strategic Housing Market Assessment undertaken by Opinion Research Services. Section 3 of this report sets out the tenure mixes (including the form of intermediate affordable housing tenure) that have been assessed for each Local Authority.

Average build costs have been derived from the Build Cost Information Service. These base costs have then been adjusted according to each local authority's cost multiplier as identified by the Build Cost Information Service. Additional costs reflect external works, Code for Sustainable Homes requirements (to reflect the changes to this standard over time), additional sustainability requirements that may be sought in excess of these standards, Lifetime Homes Requirements and a contingency sum. These figures are set out in detail in Section 3 of this report.

Section 106 and infrastructure costs have been assessed separately for each Local Authority following consultation with Officers and with reference to extant and emerging local policy including County Council requirements where applicable. These costs also vary dependent upon the size of the notional site assessed. Section 3 summarises these cost assumptions whilst Appendix 6 to this report sets out in detail the specific assumptions made for each Local Authority. Sensitivity testing has also been undertaken on Section 106 and infrastructure cost assumptions to allow for potential variations over time.

Actual S106 and infrastructure costs will vary from site to site depending upon location, proximity to existing services and the capacity of existing provision. Without modelling specific schemes, our policy based approach can therefore only provide general guidance on the impact of lower or higher levels of S106/infrastructure costs.

Schemes have been assessed using nil Social Housing Grant (SHG) as the baseline. When sensitivity testing, in certain circumstances, we have assumed SHG is available at 'lower', 'normal' and 'higher' levels. The grant per unit that these assumptions relate to is set out in section 3 of the main report.

## Land Value Assumptions

It is essential to establish a baseline to determine at which point land may come forward for development. In order for this to happen residual land values must exceed existing or alternative uses of the site.

All schemes have been tested against two key assessments of viability. The first is data regarding land values in the area, and takes into account an uplift in respect of 'hope' value.

In order to inform the land values used as our first assessment of viability Levvel has:

- had regard to Valuation Office Agency Data regarding land values;
- sought feedback from stakeholders through the stakeholder engagement process (as detailed in Section 4 of this report);
- engaged Thornes Chartered Surveyors and Estate Agents to provide information on land values and recent land transactions undertaken in each Local Authority Area.

Our second test of viability examines the relationship between residual land value (RLV) and gross development value (GDV). This assists in 'future proofing' this assessment and reflecting land owners differing expectations.

Using these two tests of viability simultaneously (benchmark land values and the RLV:GDV ratio), it is possible to inform a policy position that has flexibility and is relevant throughout the Core Strategy period to ensure deliverability.

In respect of strategic sites we have assessed viability using the second test of viability, (the RLV:GDV test). This allows us to consider the relative land value rather than an absolute one. Rather than assessing what particular land value may be acceptable to a landowner this assesses the value of the development and whether the land value generated may be reasonable for both landowner and developer.

Full details on land value assumptions can be found in section 3 of the main report.

## Key Findings

Section 13 of the report sets out in detail the conclusions and recommendations drawn from the report and how these relate to each Local Authority. Comparisons between the different local authorities viability position within the sub region is also examined as is the impact of certain criteria upon development viability such as Code for Sustainable Homes Requirements and the level of developer profit.

## Sites below 15 dwellings

### All Areas

We considered the ability of schemes of 5-14 dwellings to deliver affordable housing either on site, or by commutation. It should be considered that on developments of this size, absolute values are as important as relative or proportionate values in bringing sites forward and the proportion of affordable housing that may be viably achieved will differ dependent upon location, market conditions, existing or alternative use of the site, development density and the gross development value of the scheme.

In all cases the exact level of affordable housing will have to be determined at the point of application having due regard to the gross development value and the potential alternative/existing uses of the site.

It should also be noted that if the market performs to downside conditions it will be more challenging, in these periods, for schemes of this size to deliver affordable housing.

### Brentwood

In no cases would more than a 30% affordable housing requirement be deliverable and the impact of factors such as development density, location and the existing/alternative use of the site may reduce the maximum amount of affordable housing that may be achievable in some circumstances to 10%.

### Epping Forest

In no cases would more than a 30% affordable housing requirement be deliverable and the impact of factors such as development density, location and the existing/alternative use of the site may reduce the maximum amount of affordable housing that may be achievable in some circumstances to 10%.

On developments of 70 dwellings per hectare and above with a previously developed residential land use, delivery of any percentage of affordable housing will be difficult to achieve.

### Harlow

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### East Hertfordshire

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### Uttlesford

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On developments of 67 dwellings per hectare with a previously developed residential land use, delivery of any percentage of affordable housing will be difficult to achieve.

## **General Development Sites (15-250 dwellings)**

### All

The imposition of the forecast increase in construction costs associated with achieving higher levels of Code for Sustainable Homes requirements has an adverse impact upon development viability during the period 2012 to 2017 or thereabouts. These costs have been based upon current cost estimates and it may be that technological advances in building techniques and general acquaintance with the requirements may bring these costs down. At this point however, it may be that the allowance we have made for code level costs is a 'worst case' position.

Our reporting has mainly been made on the basis of gross developer profit at 19% of Gross Development Value. This is because of the level of profit that has been accepted by custom both in many affordable housing viability studies of this type and in negotiations on sites (and supported at appeal). We are mindful that current pressures to increase the allowance for profit are in response to the specific market conditions that we are currently experiencing. This is in response to the perceived risk of development in an uncertain market and the difficulties developers currently face accessing finance at reasonable rates. Therefore basing assessments on higher levels of profit for a policy that must last the lifetime of a Core Strategy might not be appropriate. It should however be noted that the results of testing gross profit at 25% of Gross Development Value has a significant effect on the viability of schemes. Where site specific constraints and market conditions dictate, a Local Authority may consider the case for higher profit levels to be taken into account. It is our view that, where development viability is a particular issue, the applicant must make a reasonable case for taking into account a higher than normal profit level.

### Brentwood

In comparison with other local authority areas in the sub region higher density development is relatively more viable in Brentwood with the optimum development density at 35% affordable housing is in the region of 50 to 70 dwellings per hectare. As development density increases to 100 dph and above, residual land values are adversely affected with lower value areas more adversely affected than higher value areas.

The baseline position assumes nil public subsidy, 19% gross profit and an 85:15 split of social rented to intermediate affordable housing. Section 106 contributions are in line with 100% of the baseline level as set out in Appendix 6 and section 3 of this main report.

The summary of results for general development sites in Brentwood assumes the following baseline position: nil public subsidy; 19% gross profit and an 85:15 split of social rented to intermediate affordable housing. Section 106 contributions are in line with 100% of the baseline level as set out in Appendix 6 and section 3 of this main report.

15 Units at 30 dph - In most areas against industrial/greenfield land value tests 35% affordable housing is achievable although the expectation may have to reduce to 20% in CM14 value areas. It is unlikely that any more than 35% could be achieved viably on this type of site without risking residential development coming forward. On Previously Developed Residential Land the ability to achieve any more than 20% is extremely challenging and 10% is probably more realistic. Care must be taken when seeking high levels of planning obligation as this has a negative effect on viability in general and the ability to achieve affordable housing more specifically.

15 Units at 50 dph - In most areas against industrial/greenfield land value tests 35% affordable housing is achievable although grant or a change in affordable housing mix could be needed. In RM4 however up to 40% affordable housing may be deliverable. On Previously Developed (residential) Land the ability to achieve any more than 20% affordable housing is challenging and 10% may be more realistic except in the case of RM4 where 35% may be achievable with grant. Care must be taken when seeking high levels of planning obligations as this has a negative effect on viability in general and the ability to achieve affordable housing more specifically.

15 Units at 70 dph - Although in certain circumstances and in certain areas it may be possible to achieve up to 35% affordable housing it may be necessary to consider the affordable housing tenure mix as well as a possible relaxation of section 106 planning obligations. Grant will also help to ease viability. In some areas and on higher land value sites, it may only be possible to achieve between 10% and 20% affordable housing. It should also be noted that in postcode area RM4 the viability position on a 70 unit scheme (predominantly flats) is different to lower density developments in that location.

50 Units at 30 dph - On land at Previously Developed (residential) values it may be necessary in most areas to consider reducing the affordable housing expectation to 10% to 20%. Even in high value areas such as RM4 it may be unlikely that more than 20% affordable housing could be achieved. However, on land at industrial/greenfield values, 35% affordable housing is generally achievable. In areas CM14 and 15 our modelling has shown that only 20% may be achievable and possibly as low as 10% dependent upon market conditions. In higher value areas, however, 35% should remain a viable position.

50 Units at 50 dph - In the long term the likely maximum percentage in value areas CM4 and RM4 may be as much as 40% and in some cases higher if grant is made available. This assumes land at industrial/greenfield values. In the other value areas, lower percentages may be more appropriate if no grant is available and if high proportions of social rented affordable housing is sought. On Previously Developed (residential) land it is possible to reach 35% affordable housing in value area RM4 while in other areas it is more likely that up to 20% could be achieved.

50 Units at 70 dph, 100 and 120 dph - It will be much more challenging to achieve viability if land values are in line with previously developed residential land values although it may be possible to achieve 35% in value area CM4. In all other areas less than this is more likely to be viable. Noting that viability decreases as density increases, in most areas in the longer term affordable housing can be achieved at 35% against industrial/greenfield land values but this becomes marginal at 100 dph and 120 dph in most areas.

150 Units at 30 dph - Achieving 35% affordable housing on schemes in CM13, CM14, and CM15 is challenging and affordable housing requirements down to 10%-20% may only be achievable in these areas if grant is not available. In other areas 35% affordable housing should be achievable. Indeed, in RM4 affordable housing may still be viable in the long term at 40%.

150 Units at 50 dph - Achieving 35% affordable housing in the long term is possible on previously developed residential land although in some circumstances it may only be possible to achieve 10% in lower value areas. However, when looking at industrial/greenfield land values 35% affordable housing would appear to be achievable and in some higher value areas up to 50% affordable may be viable assuming downside economic conditions do not prevail.

150 Units at 70 dph - In the longer term it is possible to achieve 35% affordable housing in all areas assuming land at industrial/greenfield values and in CM4 it may be possible to achieve higher than this (up to 50%) especially if grant is available. On previously developed land (residential) it is more likely that a lower percentage of affordable housing (10-25% dependent upon value area) may be viably achieved.

### Epping Forest

15 units at 30 dph - In most value areas, affordable housing of up to circa 40-47% may be achievable should the market perform to at least middle scenario conditions. However in the area achieving the lowest values (CM17) 20% affordable housing (assuming middle market conditions) is more likely to achieve a viable position. On sites where the existing use is residential, achieving a viable outcome is more challenging thus affordable housing in the range of 7-20% is more likely to be able to achieve a viable outcome. In some cases, (dependent upon market conditions) grant may be required to achieve affordable housing at this level.

15 Units at 50 dph - In most areas, 40-47% affordable housing may be deliverable over most of the life of the Plan although grant may be required in some areas and at some points in order to achieve this. This assumes middle market conditions, however should an upside position be reached, achieving viability at these percentages without grant is far more likely. In the lower value area (CM17) circa 20-35% affordable housing is more likely to be achievable in middle market conditions. On sites coming forward where the existing land use is residential, 7-20% affordable housing is more likely to be achievable.

15 Units at 70 dph - It is comparatively more challenging to achieve a viable position on higher density (70dph) notional sites than on the lower density schemes (30 dph and 50 dph). Against industrial/greenfield land values, 35-40% is likely to be achievable in some areas however in value area CM17, 7-14% affordable housing, and in value area EN9/CM5, 20% affordable housing, is more likely to be deliverable. This is based on the market performing to the middle scenario. In respect of sites coming forward where the existing land use is residential, 7-14 % affordable housing, in some cases requiring grant, appears the more likely amount that may be achieved. Again, this is based on the market performing to the middle scenario.

50 Units at 30 dph - Viable delivery of affordable housing varies quite considerably dependent upon the value area assessed and the availability of public subsidy. Against industrial/greenfield land values, some value areas are likely to be able to achieve circa 35-40% (with grant in some circumstances) in middle market conditions throughout the period assessed. In other areas, 20-25% affordable housing is viable in the short term without grant, increasing to circa 35% later in the Plan period. Only in value area CM17, is it unlikely affordable housing at these levels would be achievable. Against previously developed residential land values, whilst some value areas may be able to deliver 10% affordable housing in middle market conditions, in other areas it may be challenging to achieve viable delivery of any amount of affordable housing.

50 Units at 50 dph - Against industrial/greenfield land values, up to 35-40% affordable housing (and in value area IG7 up to 50% affordable housing) may be achievable over the period assessed assuming at least middle market conditions. Grant may be required in some areas at certain points to achieve delivery of this percentage and/or flexibility of affordable housing tenure to achieve higher percentages of affordable housing. Against previously developed residential land values, it is likely that circa 10% affordable housing may be achievable, although in certain value areas delivery of even 10% affordable housing may be challenging in certain periods and/or market conditions.

50 Units at 70 dph - As was the case with the 15 unit notional sites, delivery of affordable housing is more challenging on higher density schemes. Whilst some areas may be able to viably deliver up to 35% affordable housing delivery of around 10% affordable housing is likely to be difficult in others. This is the position when assessing viability against industrial/greenfield land values. When assessing the position against previously developed residential land values, delivery of any affordable housing over the life of the Plan may not be achievable in some areas whilst in others circa 10% is more likely.

50 Units at 100 and 120 dph - Delivery of affordable housing is more likely to be challenging on 120 dph schemes than those coming forward at 100 dph. In some value areas and in some circumstances, up to 20% affordable housing may be achieved against industrial/greenfield land values, whilst in others 10% is more likely. Against previously developed residential land values, some areas are unlikely to be able to viably deliver any amount of affordable housing over the Core Strategy period whilst others may achieve up to 10%, dependent upon market conditions.

150 Units at 30 dph - Against industrial/greenfield land values, typically 25-35% or 35-40% (dependent on area) is likely to be achievable over the life of the Plan in middle market conditions. Only in value area CM17 is delivery at these types of levels unlikely to be achievable and circa 10% affordable housing is more likely to be deliverable. If these sites were to come forward where the existing land use was residential, viability is more challenging and circa 10% affordable housing may be achievable in some value areas only.

150 Units at 50 dph - Up to 35-45% affordable housing is likely to be achievable against industrial/greenfield land values in higher value areas. In other areas 15-20% affordable housing in middle market conditions in the earlier part of the period assessed is more likely to be achievable without grant however even in these cases viability eases over time and later in the period assessed delivery of higher percentages is more likely. In value area CM17 achieving a viable outcome is more challenging and delivery of 10% affordable housing may not be viable until the second half of the period assessed. Against previously developed residential land values circa 10% affordable housing is more likely to be achievable, although in some value areas delivery at this even level may be difficult.

150 Units at 70 dph - Again, the percentage of affordable housing that may be viably achieved varies considerably between value areas with some areas able to sustain up to 45% affordable housing (CM16) over the period assessed, whilst others may only be able to achieve circa 10% affordable housing (CM17). This assumes industrial/greenfield land values. Against previously developed residential land values achieving a viable position is more challenging and whilst 20% affordable housing may be achievable in some value areas, generally circa 10% affordable housing is more likely.

#### Harlow

15 units at 30 dph - At industrial/greenfield land values 35% affordable housing remains achievable in most areas although grant and/or a relaxation of section 106 planning obligations may be required in some periods. In the lower value area of CM18 it may be more challenging to achieve this percentage whilst in the higher value areas up to 45% affordable housing may be achievable. The position on previously developed residential land is much more challenging. Up to 20% affordable housing is more likely to be achievable in some areas reducing to around 10% in lower value areas.

15 units at 50 dph - At industrial/greenfield land values it is possible to achieve up to 35% affordable housing in most value areas. On previously developed residential land the ability to achieve much greater than 10% affordable housing may be challenging.

15 units at 70 dph - Only in value area CM17 is it likely affordable housing could be achieved on small flatted developments at 70 dph or more. There may be some one-off luxury flatted developments where values are high and these sites may be able, theoretically, to provide some affordable housing in economic terms.

50 units at 30 dph - In some cases at industrial/greenfield land values it may be possible to achieve up to 45% affordable housing although this may involve the need to provide additional grant or relax the planning obligations for the site. 35% affordable housing is more likely to be achievable if the market performs to the middle scenario or better. On previously developed land 35% affordable housing is more difficult to achieve apart from value area CM19. Affordable housing in other areas is more likely to range from below 10% to 25%.

50 units at 50 dph - Affordable housing on land at industrial/greenfield values can support from 25% in lower value areas up to 40% in higher value areas. Care will need to be taken when seeking higher levels of affordable housing in periods of challenging economic conditions and especially during the period when code level 6 requirements come into force. On previously developed residential land it is more likely that up to 25% affordable housing will be achievable and in most areas less than this level (down to 15%) is more likely.

50 units at 70, 100 and 120 dph - Generally, the ability to achieve affordable housing on higher density sites in all areas is extremely challenging. The exception may be CM17 where, at industrial/greenfield land values, up to 25% affordable housing may be possible on sites at 70 dph. Schemes will only be viable against previously developed residential land if our upside economic assumptions are relevant and possible later in the Core Strategy period. In that case up to 10% affordable housing may be viable in CM17. In areas CM18, CM19 and CM20 it will be extremely difficult to achieve viability with any affordable housing. The exception may be where flatted developments attract higher executive apartments and consequently higher values than we have tested. For example, where flats are sold for up to, say, £300,000 then an element of affordable housing could be afforded.

150 units at 30 dph - On industrial/greenfield land it is generally possible to achieve 35% affordable housing but the tenure mix and planning contribution levels must be considered in some periods in order to ensure that this is achievable. On previously developed land it will be much more challenging to achieve this target and in some areas (CM17 and CM18) around 10% affordable housing is more likely to be viable even in middle economic conditions. In higher value areas 20% affordable housing is more likely to be achieved against previously developed residential land values.

150 units at 50 dph - At industrial/greenfield land values it is unlikely that schemes could be supported at this density that provided 100% social rent and 35% affordable housing without a considerable amount of grant. At other tenure mixes in all areas most schemes are either marginally viable or viable at 35% affordable housing although this may have to be compromised in certain conditions especially in CM19 where we found that 25% - 30% may be a more realistic requirement. On previously developed residential land it is unlikely that 35% affordable could be achieved and viability maintained if economic conditions remain in the middle and especially in the downside scenarios. Target percentages may have to be reduced to between 10% and 30% in order to maintain viability.

150 units at 70 dph - Overall our modelling has shown that it is extremely unlikely that schemes with 35% affordable housing will come forward on this site type in any area within Harlow both now or during the life of the Core Strategy. Indeed, currently, 25% affordable housing is challenging even on land traded at industrial/greenfield values and value area CM17 is the only area currently likely to achieve up to 25% affordable housing. In the future

period, 25% affordable housing could be achieved in CM17 with circa 10%-15% affordable housing being more realistic in other value areas. The situation will be eased during periods of economic upturn. Against previously developed residential land values whilst higher value areas may be able to deliver up to 10% affordable housing, it is unlikely that other value areas would be able to support any affordable housing requirement in any of the market conditions assessed.

### East Hertfordshire

15 Units at 30 dph - Against industrial/greenfield land values 35-40% affordable housing appears broadly viable against middle market conditions, although value area CM23 is likely to require grant to achieve these levels in the early part of the Core Strategy. Considerations of tenure mix (increasing the proportion of intermediate affordable housing and/or relaxing S106 requirements) is a further mechanism that could be employed to ease viability in this area. The viability of sites such as these coming forward on previously developed residential land is more challenging and a considerable amount of grant and/or change in tenure mix is likely to be necessary.

15 Units at 50 dph - 35% affordable housing is likely to be broadly viable against middle market conditions over the life of the Core Strategy although in some value areas grant funding and/or a flexible approach to affordable housing tenure is likely to be required to achieve this, specifically in the earlier half of the Core Strategy period. Later in the life of the Core Strategy and/or in upside market conditions 40% affordable housing may be deliverable in some value areas. Delivery of affordable housing on sites where the existing use is residential is challenging and even with levels of affordable housing at around 7-14% it is likely that in some areas provision of this amount would be difficult until later in the Core Strategy period should the market achieve only middle conditions.

15 units at 70 dph - With the exception of some of the higher value areas (where 35% affordable housing may be deliverable against industrial/greenfield values) delivery of in excess of 7% affordable housing is likely to be challenging against industrial/greenfield land values should middle market conditions only prevail. It is unlikely that schemes of this nature brought forward on land where the existing use is residential could sustain any affordable housing requirement in any market scenario assessed.

50 units at 30 dph - In higher value areas, up to 50% affordable housing may be viable over much of the life of the Core Strategy. This reduces to 35% affordable housing (in some cases only achievable with public subsidy at normal levels) in other areas. In both cases these assume middle market conditions and S106 requirements at 100% of the base level. Delivery of affordable housing on land with an existing residential use is much more challenging and some lower value areas may be unable to viably deliver any affordable housing.

50 units at 50 dph - In the higher value areas and assuming industrial/greenfield land values; up to 40% affordable housing may be achievable without grant should the market perform to the middle scenario. In other areas, 35% affordable housing is likely to be viable, albeit requiring grant at normal levels in some circumstances. Furthermore, some flexibility in the affordable housing tenure mix may also be required to achieve delivery of 35% affordable housing in these instances with intermediate tenures forming a minimum of circa 50% of the affordable housing mix. Against previously developed residential land values, up to 10% affordable housing is the likely maximum amount that could be delivered in any period assessed unless the market performs to upside conditions. In some areas, where the existing land use is residential, delivery of any affordable housing could be challenging.

50 units at 70 dph - Delivery of affordable housing on these higher density notional sites is comparatively more challenging than on the lower density (30 and 50dph) schemes. Although some value areas are able to achieve up to 35% affordable housing, for large parts of the period assessed (assuming middle market conditions) in the short term 10-20% affordable housing is more likely to be the maximum that can be achieved. On notional sites where the existing land use is residential, it is likely that up to 10% affordable housing could be delivered. In most cases this would require grant at normal levels, however if the market achieves upside conditions the schemes have the potential to achieve delivery of circa 10% affordable housing without recourse to public subsidy.

50 Units at 100 dph - 35% affordable housing is likely to be broadly viable against middle market conditions over the life of the Core Strategy although in some value areas grant funding and/or a flexible approach to affordable housing tenure may be required to achieve this in the short term. Later in the life of the Core Strategy and/or in upside market conditions 40% affordable housing is likely to be deliverable in some value areas. Delivery of affordable housing on sites where the existing use is residential is challenging and even with levels of affordable housing of 7-14% it is likely that in some areas provision of this amount would be difficult until later in the Core Strategy period should the market achieve only middle conditions.

150 units at 30 dph - In higher value areas, up to 50% affordable housing may be viable over much of the life of the Core Strategy. This reduces to up to 35% affordable housing in lower value areas. In both cases these assume middle market conditions and S106 requirements at 100% of the base level. Delivery of affordable housing on land with an existing residential use is much more challenging and some lower value areas may be unable to deliver any affordable housing at all in certain periods or market conditions.

150 units at 50 dph - Against industrial/greenfield land values some areas are likely to be able to deliver 35% affordable housing in middle market conditions without grant in the latter half of the Core Strategy period. Prior to this grant at normal levels may be required to achieve a marginally viable position, and should S106 costs increase above the levels assumed, delivery of 35% affordable housing may be challenging in this earlier period. In areas where relatively higher open market values can be achieved delivery of 35% - 40% affordable housing may be achievable throughout the period assessed, again assuming middle market conditions. Against previously developed residential land values, although 10-20% affordable housing may be achievable in some areas, in others, delivery of any affordable housing may not be viable.

150 units at 70 dph - In the early half of the period assessed grant funding is likely to be required to achieve 35% affordable housing and even then, a marginally viable outcome may only be achieved assuming middle market conditions. In the second half of the Core Strategy (and for the majority of it should upside conditions be achieved), 35% affordable housing may be viable without grant. Against previously developed residential land values, although 10-20% affordable housing with grant may be achievable in some areas, in others, delivery of any affordable housing may not be viable.

#### Uttlesford

15 Units at 30 dph - Against industrial/greenfield land values up to 40% affordable housing appears broadly viable against middle market conditions, although some areas may require grant to achieve these levels in the early years of the Core Strategy. Considerations of tenure mix (increasing the proportion of intermediate affordable housing and/or relaxing S106 requirements) is a further mechanism that could be employed to ease viability in this period. The viability of sites such as these coming forward on previously developed

residential land is more challenging and up 14% may be deliverable in some value areas with grant towards the latter half of the duration of the Core Strategy should the market achieve the middle scenario. Should the market achieve upside conditions, provision at this level may be achievable earlier.

15 Units at 50 dph - 35% affordable housing is likely to be broadly viable against middle market conditions over the life of the Core Strategy although in some value areas grant funding and/or a flexible approach to affordable housing tenure may be required to achieve this in the early years. In the mid to later period of the Core Strategy and/or in upside market conditions 40% affordable housing may be deliverable in some value areas. Delivery of affordable housing on sites where the existing use is residential is more challenging and up to 14% it is more likely in the early part of the Core Strategy should the market achieve only middle conditions.

15 units at 67 dph – As density increases, viability decreases and with the exception of value area CB10 (where 35% affordable housing may be deliverable against industrial/greenfield values) delivery of in excess of 7% affordable housing is unlikely to be viable against industrial/greenfield land values should only middle market conditions prevail. On land where the existing use is residential it may be challenging to sustain any affordable housing requirement in any market scenario assessed.

50 units at 30 dph - In higher value areas, 40-45% affordable housing may be viable over much of the life of the Core Strategy. This reduces to up to 35% affordable housing in lower value areas. In both cases these assume middle market conditions and S106 requirements at 100% of the base level. Delivery of affordable housing on land with an existing residential use is very challenging.

50 units at 50 dph - In the higher value areas and assuming industrial/greenfield land values, 35-40% affordable housing may be achievable without grant should the market perform to the middle scenario. In other areas, up to 35% affordable housing is more likely to be viable although some flexibility in the affordable housing tenure mix may be required to achieve delivery of 35% affordable housing in these instances. Against Previously Developed residential land values, unless upside market conditions are achieved, 10% affordable housing may be the likely maximum amount that could be delivered.

50 units at 67 dph - Delivery of affordable housing on these higher density (67 dph) notional sites is comparatively more challenging than on the lower density (30 and 50dph) schemes. Although some value areas are able to achieve 35% affordable housing for large parts of the period assessed (assuming middle market conditions) in the short term 10-20% affordable housing is more likely to be the maximum that could be achieved. On notional sites where the existing land use is residential, it is more likely that up to 10% affordable housing could be achieved dependent upon market conditions.

250 units at 30 dph - Against industrial/greenfield land values, some value areas may be able to support 35-40% affordable housing without grant. In other value areas, in the shorter term, up to 25% affordable housing is more likely to be achievable assuming middle market conditions increasing to 35% affordable housing later in the Core Strategy. Against previously developed residential land values up to 10% affordable housing is more likely to be achievable.

250 units at 50 dph - Against industrial/greenfield land values delivery of up to 40% affordable housing may be achievable in the mid to later period of the Core Strategy. Against previously developed residential land values, up to 20% affordable housing may be achievable in higher value areas.

250 units at 67 dph – In the mid to later period of the Core Strategy (or earlier if the market performs to upside conditions) 35% affordable housing may be achievable however in the shorter term grant funding may be required to achieve this percentage. Against previously developed residential land values achieving a viable position at this percentage is more challenging and delivery of 10-20% affordable housing is more likely to be achievable.

## **Strategic Sites (over 1000 dwellings)**

### All Areas

There are many factors that will affect land coming forward for strategic sites. These may include land assembly issues, infrastructure requirements and existing/alternative land uses. It has not been possible to incorporate all of these variables in a study such as this where the purpose is to inform general policy. Our assessment of strategic sites must be therefore seen as a preliminary part of a process which establishes a general starting point for negotiation and establishes the likely potential of these sites to deliver affordable housing.

All strategic sites have been assessed against each of the value areas within each Local Authority which they have been assessed. In Harlow however, where there is recognition that development may occur outside the local authority boundary we have additionally assessed development viability against a 'generic value area' values for which have been informed by the current sales values of new build development in Harlow.

It should be considered however, that new 'value areas' may be created over the long term by the development of large strategic sites which may mean that they will create their own value area. This may affect viability differently in comparison to the value areas we have assessed here.

It should also be noted that if the market performs to downside conditions it will be more challenging, in these periods, to deliver affordable housing.

### Epping Forest

35% affordable housing is likely to be achievable in mid to high value areas dependent upon timing of development, market conditions, affordable housing tenure mix and infrastructure costs. In lower value areas, achieving this percentage is likely to be more challenging and public subsidy or a reduction in the affordable housing or infrastructure burden may be required to achieve a viable position.

### Harlow

30-35% affordable housing may be achievable in mid to high value areas dependent upon timing of development, development density, market conditions, affordable housing tenure mix and infrastructure costs. In lower value areas, achieving this percentage is likely to be more challenging and public subsidy or a reduction in the affordable housing or infrastructure burden may be required to achieve a viable position.

### East Hertfordshire

35% affordable housing may be achievable in mid to high value areas dependent upon timing of development, market conditions, affordable housing tenure mix and infrastructure costs. In lower value areas, achieving this percentage is likely to be more challenging and public subsidy or a reduction in the affordable housing or infrastructure burden may be required to achieve a viable position.

## Uttlesford

35% affordable housing may be achievable in mid to high value areas dependent upon timing of development, development density, market conditions, affordable housing tenure mix and infrastructure costs. In lower value areas, achieving this percentage is likely to be more challenging and public subsidy or a reduction in the affordable housing or infrastructure burden may be required to achieve a viable position.

## **Commuted sum Methodology**

Any methodology for assessing commuted sum payments should be based on the equivalence principle supported by Circular 05/05, PPS3 and Delivering Affordable Housing. The commuted sum should be equivalent to the contribution that would have been provided if the affordable housing had been provided on site and the scale of the developer subsidy should equate to the difference in residual value between a scheme unencumbered by affordable housing and a scheme with affordable housing, having regard to the established existing or alternative use value. This is set out in detail in section 12 of this report.

## **Recommendations**

It is essential that any District/Borough wide affordable housing policy is not unduly rigid and can be applied flexibly and pragmatically allowing development to come forward whilst 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 framework for enabling such decisions to be made including those of viability should be set out within a Supplementary Planning Document.

It is important that each Council (either individually or collectively) monitors market conditions experienced on an ongoing basis to establish if they represent best the downside, middle or upside market conditions used within this study. It is recommended that this monitoring is undertaken on an annual basis to enable each Council at any given time over the life of the Core Strategy to refine their expectations in respect of the nature and level of affordable housing that is likely to be achievable. The results of such monitoring should be made available on an annual basis through regularly published documents such as the Annual Monitoring Report.

## **Sites below 15 dwellings**

### All Areas

A site size threshold below 15 units can produce developable, deliverable sites with affordable housing in many circumstances however the exact level will have to be determined at the point of application having due regard to location, market conditions, development density and the potential alternative/existing uses of the site. Our analysis has shown that these factors have a significant impact on the ability of sites of this size to deliver affordable housing. 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.

### Brentwood

Policy H9 of the Brentwood Replacement Local Plan 2005 allows for a differential threshold dependent upon a site's location within the Borough. Schemes coming forward outside of

the Brentwood urban area are more likely to be lower density and our testing has shown that sites at lower densities are more likely to be viable. The existing 5 unit threshold in these areas is thus recommended to be retained however our analysis has shown that a maximum 30% affordable housing is likely to be achievable on low density (30 dph) schemes, reducing to 20% affordable housing on schemes developed at 50-70 dph. We would suggest that if any policy on sites below 15 units is to be introduced in the Brentwood urban area, it is flexible enough to ensure that sites of this size continue to come forward for residential development. This is particularly relevant as sites of this size have not previously been expected to provide any affordable housing in this location.

#### Epping Forest

Policy H6A of the Epping Forest Local Plan 2006 sets out variable thresholds dependent upon location and existing land use of new development in the District. Our analysis has shown that a maximum of 30% affordable housing is likely to be achievable on low density (30 dph) schemes, reducing to 10-20% affordable housing at schemes developed at 50 dph and above. Given the results of our analysis, and in order to maintain consistency with other areas in the sub region we suggest the Council may wish to consider increasing the current threshold in settlements with a population of less than 3,000 to 5 units.

#### Harlow

We would recommend that the Council considers carefully introducing an affordable housing requirement on sites of 5 units and above. On these sites our analysis has shown that a maximum of 30% affordable housing is likely to be achievable on low density (30 dph) schemes, reducing to 20% affordable housing at schemes developed at 50 dph, and 10% affordable housing on schemes developed at 70 dph. We would suggest that if any policy on sites below 15 units is to be introduced in Harlow, it is flexible enough to ensure that sites of this size continue to come forward for residential development. This is particularly relevant as sites of this size have not previously been expected to provide any affordable housing in the District.

#### East Hertfordshire

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. Policy HSG3 of the East Hertfordshire Local Plan Second Review 2007 allows for a 3 unit threshold on sites coming forward in Category 1 and 2 villages. Given the results of our analysis it may be advisable to adopt a more straightforward 5 unit threshold in all areas of the District. It is important however that if any such policy is to be introduced, it is flexible enough to ensure that sites of this size continue to come forward for residential development. This is particularly relevant as sites of this size have not previously been expected to provide any affordable housing in all locations within the District.

#### Uttlesford

On schemes of less than 15 units 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. We would suggest that if any policy on sites below 15 units is to be introduced in Uttlesford it is flexible enough to ensure that sites of this size continue to come forward for residential development. This is particularly relevant as sites below 15 units have not previously been expected to provide any affordable housing.

## **General Development Sites (15-250 dwellings)**

### Brentwood

On general development sites we would recommend the adoption of a single Borough wide affordable housing target of up to 35% on the basis that this is applied flexibly and from a reasonable perspective taking into account market conditions, value areas and other planning and infrastructure requirements.

### Epping Forest

On general development sites we would recommend the adoption of a single District wide affordable housing target of up to 40% on the basis that this is applied flexibly and from a reasonable perspective taking into account market conditions, value areas and other planning and infrastructure requirements. It is our view that retaining the current policy position (Policy H7A) where there is a range of targets dependent upon scheme location and existing land use, may be counter productive as we believe it may be necessary to have a more consistent and clear approach throughout the District.

### Harlow

On general development sites we would recommend the adoption of a single District wide affordable housing target of up to 35% on the basis that this is applied flexibly and from a reasonable perspective taking into account market conditions, value areas and other planning and infrastructure requirements.

### East Hertfordshire

On general development sites we would recommend the adoption of a single District wide affordable housing target of up to 40% on the basis that this is applied flexibly and from a reasonable perspective taking into account market conditions, value areas and other planning and infrastructure requirements.

### Uttlesford

On general development sites we would recommend the adoption of a single District wide affordable housing target of up to 40% on the basis that this is applied flexibly and from a reasonable perspective taking into account market conditions, value areas and other planning and infrastructure requirements.

## **Strategic Sites (over 1000 dwellings)**

### All Areas

There are limitations in assessing the economic viability of strategic sites within the framework of a District/Borough wide study undertaken to inform policy. We would recommend that more detailed analysis of strategic development locations is undertaken to clarify each Council's requirements on sites of this nature and identify the approach to viability. This may be particularly pertinent where it is proposed that such sites could account for a large proportion of new development within a Local Authority area. Such work could be set out in a Supplementary Planning Document or Area Action Plan.