



# HOUSING EXPECTATIONS

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cc. GNDP

26<sup>th</sup> August 2010

Dear David

**Updated Response to Greater Norwich Development Partnership Stakeholder and Public Consultation in Relation to Policy 4: Housing Delivery of the GNDP Joint Core Strategy for Broadland, Norwich and South Norfolk**

Many thanks for your letter dated 5<sup>th</sup> August, which was in response to our letter dated 8<sup>th</sup> July. We have reviewed the contents of this alongside the "Affordable Housing Viability Study" which was issued in July 2010, not long after we had submitted our previous comments. Although both of these documents do shed some light on the queries we raised, we still believe some of the assumptions made and approach taken to test the viability and delivery of JCS Policy 4's affordable housing targets (currently 40% affordable housing on sites of five or more dwellings, 0.2 hectares and above) are not sound.

We do not believe sufficient evidence has been provided to demonstrate that achieving the target is viable, and that the targets and thresholds still need to be amended to ensure the pursuit of affordable housing does not jeopardize the delivery of all types of housing. So as to avoid confusion, the contents of this letter, follows the same order of points raised in both our previous letters. As follows:

1. Our main concern continues to be that the baseline for your assumptions and scenario testing is the '1 hectare' theoretical site. We cannot accept that this is

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representative of the way in which the majority of housing is likely to come forward within the GNDP area within the foreseeable future. This approach has skewed the report's findings and conclusions.

We have previously commented that the majority of housing delivery is likely to be through large strategic sites which will have different costs and issues than a small site. Using the 1 hectare site as the baseline has resulted in more tested scenarios been considered viable than would be the case if a more representative baseline site was used.

Importantly, the 1 hectare examples also assumes a gross/net development area ratio of 100% and therefore by multiplying this up it ignores the fact that most sites (particularly larger ones) have a gross/net development area ratio of 50-70%. Without seeing the full detail of the model it is not certain whether this has been considered in the testing.

2. It is interesting that you rate the more standard model above the HCA affordable housing tailored models. Our experience has been the reverse however this I am sure comes down to professional opinion. The main issue for our client is that the model can be accessed, scrutinised and utilised. I would be grateful if you could let me know whether it is available and where I might get a copy?
3. Many thanks for your response – this is accepted.
4. As per point one above, we do not believe the issue of viability and the up front costs of developing large strategic sites is addressed by your response. Although we agree with your comment that there will be a higher number of smaller sites coming forward compared to larger ones, the latter will actually deliver a higher number of houses. To therefore dismiss this issue by saying that the policy allows an applicant to negotiate with the local authority on housing targets and viability, is in effect consigning the majority of the housing that will be provided to be reviewed in this way.

This was not why viability testing was originally included in the policy. Its purpose instead was so to provide Councils with flexibility in dealing with sites which had unusual characteristics that made the standard housing provision financially unviable. The resources required by Councils in assessing such a

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matter are often significant and it was never the attention that such an exercise would apply to all large development sites.

It has also come to our attention that the "Affordable Housing Viability Study" your company issued in July appears to have a substantially reduced range of build costs compared to the information in your company's presentation of 28<sup>th</sup> June (and which attendees received a copy of). The original figures quoted in your presentation stated a range of £800/m<sup>2</sup> - £1,800/m<sup>2</sup> yet the July report has significantly reduced this to £1,040/m<sup>2</sup> - £1,190/m<sup>2</sup>. The highest figure of this new range is actually lower than the median figure of the previous range and the reason for this huge reduction is not explained. A range of build costs at this new level is far too low and throws into question the soundness of the assessment your company has undertaken.

The viability study also suggests planning costs of £300 per unit has been assumed. We would argue this is not representative of large strategic sites, particularly where Environmental Impact Assessments (EIAs) and Appropriate Assessments (AAs) apply. We have been advised that most of the large sites around Norwich will be subject to EIAs and AAs because of the potential impacts on protected habitats. As I'm sure you are aware there is a significant cost attached to the provision of the information required for these assessments. Once again the generic formulas used in your study allows for no distinction between smaller and larger sites.

5. Since Code Level 6 is a policy requirement in the current draft strategy (and most of the development in the GNDP area, subject to the affordable housing policy, will be delivered after 2015) we do not understand how it can be ignored. There will be significant cost to increasing CSH up to Level 6 and this will need to be built into feasibility and viability models. Alternatively, if you are suggesting that achieving Code Level 6 is not viable using current assumptions, then the GNDP will need to provide more flexibility in the Joint Core Strategy regarding the provision of this.
6. It is accepted that due to recent market conditions, some developers and banks are now measuring profitability of a scheme by "Profit on Cost". They are however using significantly higher profit levels than the range of 17.5% - 25% otherwise the over-all profit margin would be less than if they used the market standard of 20% on GDV. This would fly in the face of the higher demands that banks are now expecting regarding profitability and debt finance.

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7. Whilst a S106 contribution of £7k per unit is reflective of current requirements it does not take into account the implementation of new policies in the JCS and potentially a CIL. It will be important for the CIL viability work, being undertaken by GVA Grimley, and the Drivas Jonas assumptions to be consistent. If the GVA Grimley study recommends a different CIL figure, the affordable housing testing model will need to be re-run.
8. Your company's Affordable Housing Viability Study considers the values of existing greenfield land and that which is allocated for development. It does not however take into account greenfield land which has outline planning consent. In such instances, the land values are considerably more than for allocated sites. This seems at odds with the reality of the development industry (particularly in the current difficult market) where most greenfield development land is now bought at the time planning consent is achieved, either through an option agreement or a promotion agreement, many with minimum price provisions.

In addition, varying densities have been used within the viability study however only the lowest density would be relevant for South Norfolk (and Broadland) while the other higher densities would only be relevant for sites in Norwich city. Unless this distinction in densities is applied to the relevant areas the expected range in values being calculated will be misleading.

9. The Joint Core Strategy document itself states that under normal circumstances public subsidy of any form should not be assumed for the provision of the affordable housing. The Study's approach of including a level of public subsidy in the testing scenarios and seeking to justify the 40% target on the basis of the provision of public subsidy is therefore unsound. There is little point therefore in building in any grant assumptions into the DJD methodology.

In addition, we have had first hand experience in South Norfolk (in the time when there really was a chance of getting grant funding) whereby a S106 affordable housing obligation could be delivered with just a £20k per unit grant (with 100% affordable tenure), but was not supported by the HCA despite support from the LA and robust evidence demonstrating lack of financial viability.

In our view and in light of the HCA's current position, historical grant allocations (where grant has been allocated) are by no means a benchmark for the future.

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10. The viability report now shows this information. Whilst we accept that some of your figures are not too dissimilar to ours, we would not accept that £150 per ft<sup>2</sup> difference in offer price due to tenure change is an insignificant amount unworthy of consideration.
11. We have discussed this with Ann O'Leary at the County Council and have been satisfied with her response to date.
12. We are not convinced that this point has been adequately addressed in your response of 5<sup>th</sup> August and this remains our ultimate concern. Our view is that the Policy requirement for affordable housing should initially be set at a level that can be delivered without public subsidy. Rather than set an unrealistic and unachievable requirement from the outset.

### **Conclusion**

We remain convinced that the approach taken (and assumptions used) to test the viability and delivery of JCS Policy 4's affordable housing targets is not sound. We believe that little weight has been given to testing the financial viability of large strategic development sites. Instead, by using a 1 Hectare hypothetical site as a working example in the Affordable Housing Viability Study, the affect has been an affordable housing target which is completely undeliverable for the sites which are contributing to the majority of the proposed new housing.

Although JCS Policy 4 allows applicants to demonstrate this is an issue, the number of sites that this will apply to will make the process completely unmanageable. Not only will Local Authorities require considerable resources to manage this process but the time-scales are such that the delivery of housing will be hugely delayed.

Unless evidence can be produced which shows large strategic development sites are financially viable at the current JCS Policy 4 affordable housing target then the policy should be amended to reflect a more deliverable goal. In both scenarios my client would withdraw their current objections. If however the current approach is continued my client will have little choice but to continue with their objections and will be making it clear to the Inspector at the Examination in Public of those concerns.

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Yours sincerely

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