



THE HOME BUILDERS FEDERATION

Zoe Charge
Senior Project Officer
Planning and Housing Policy Team,
Northumberland County Council,
County Hall,
Morpeth,
Northumberland,
NE61 2EF

Date: 25th November 2015

Email: PlanningStrategy@northumberland.gov.uk;

Sent by Email only

Dear Sir / Madam,

Northumberland Core Strategy and Community Infrastructure Levy Draft Viability Assessment: October 2015

1. Thank you for consulting with the Home Builders Federation (HBF) on the draft viability assessment for the Core Strategy and Community Infrastructure Levy (CIL).
2. The HBF is the principal representative body of the house building industry in England and Wales and our representations reflect the views of our membership of multinational PLCs, through regional developers to small, local builders. Our members account for over 80% of all new housing built in England and Wales in any one year including a large proportion of the new affordable housing stock.
3. These comments should be read in conjunction with our response to the Core Strategy consultation. The following comments are solely made in relation to the residential elements of the viability study.

General Comments

4. The industry is keen to continue to work with the Council to seek a successful conclusion to the examination of the Northumberland Local Plan: Core Strategy and increase the rate of house building across the plan area. We are very disappointed to note that much of the evidence supplied by the industry has been discounted within the draft viability assessment. This is considered to be a significant issue and one which is likely to put in jeopardy the delivery of the Core Strategy and subsequent Delivery Document. We therefore urgently request further dialogue and engagement with the Council to ensure that the viability assessment is based upon robust evidence.

5. It is noted that many of the Council's assumptions are based upon evidence supplied by the District Valuation Service (DVS). Whilst we do not doubt their expertise we do have concerns regarding many of the generalisations made based upon examples outside of Northumberland and the fact that some of the evidence is not available for public scrutiny. It should also be noted that the majority of schemes utilised by the DVS are already at the margins of viability, hence the need to utilise their services. The NPPF is very clear that;

'..Plans should be deliverable. Therefore, the sites and the 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...' (paragraph 173).

6. The PPG further notes;

'..Plan makers should not plan to the margin of viability but should allow for a buffer to respond to changing markets and to avoid the need for frequent plan updating...' (ID 10-08)

7. The plan and viability study therefore should not be based upon scenarios where viability is already compromised, but rather should be based upon sites which are delivering without the need to renegotiate obligations.

Chapter 4: Residential Typologies

The developable proportion of Sites

8. Figure 3 identifies the long-established *SHLAA Regional Implementation Guidelines* for net developable areas. The HBF consider these guidelines to be realistic and fit for purpose. It is notable that the ratios identified within the *SHLAA Regional Implementation Guidelines* continue to be considered fit for purpose within the October 2015 *Strategic Housing Land Availability Assessment* (2015 SHLAA) but not the viability assessment (figure 5, 2015 SHLAA).
9. The viability assessment considers a limited pool of sites above 2ha, and from this suggests a range of 57-81% net developable area to be appropriate. This raises two key issues. Firstly the particular circumstances of each site should be considered and an informed judgement made upon the likelihood of these sites being typical of the larger sites proposed through the plan. Secondly it is unclear whether the assessments of net to gross ratios are consistent in every case. If not this will need to be addressed.
10. From this analysis the Council identify an average of 69%. The HBF consider this flawed, not only for the reasons given above, but also due to the fact that the limited number of samples are easily influenced by outliers, in this case the 81% at Cragside, Cramlington. It is notable that all other sites remain easily within the 50-75% range identified by the *SHLAA Regional Implementation Guidelines*, an average of which would be 62.5%.

11. The DVS examples provided in figure 6 are not considered useful. Once again there is no indication of how the gross to net areas have been determined or indeed whether the sites are urban or rural, brownfield or greenfield. But fundamentally the sites are not based within Northumberland. Indeed many are based in major urban conurbations such as York, Leeds, Bradford, Normanton and Castleford. These areas have little or no relevance to the market within Northumberland. Furthermore both Leeds and Bradford have placed significant emphasis upon urban regeneration and many of the significant sites within these areas are likely to already benefit from substantial infrastructure provision which will minimise the differences in the net to gross ratio.
12. The HBF therefore fundamentally disagrees with the assumed developable areas adopted in the Viability Assessment set out within the table at paragraph 4.28.

House sizes

13. HBF member companies have already provided information upon this and it is recommended that the study be based upon these figures.

House type mix

14. This analysis should be allied to the outputs from the 2015 Strategic Housing Market Assessment and the plan aspirations to rebalance the population profile of the district by increasing the number of younger people. This will inevitably mean that family housing will be required to attract and retain such residents.

Net Saleable Area

15. Once again, it is strongly recommended that the evidence provided by HBF members be utilised to inform this analysis. This will provide the only true picture of the net saleable area for new properties in Northumberland.

Chapter 5: Residential Values

16. This section appears to largely ignore the evidence provided by the industry, who are best placed to provide accurate information upon residential values. The higher levels identified within paragraph 5.47 of the viability study do appear to over-estimate actual values. The HBF strongly recommend that the Council reconsider this information and utilise information provided by individual HBF member companies.

Chapter 6: Residential Development Costs

Build costs

17. The Local Housing Delivery Group document '*Viability Testing Local Plans*' remains the most pre-eminent source of guidance upon viability testing for local plans. In terms of build costs it clearly recommends that;

*'..For build costs, **these should be based on the BCIS** or other appropriate data, adjusted only where there is good evidence for doing so based on specific local conditions and policies including low quantities of data...'* (our emphasis, page 34).

18. Furthermore the PPG also advises;

‘All development costs should be taken into account including:

- *build costs based on appropriate data, for example that of the Building Cost Information Service...’ (ID 10-013)*

19. The viability study deviates from this position by referencing advice from the DVS, which suggests the utilisation of data from the HCAs tender framework, called the Delivery Partner Panel (paragraph 6.13). This data is confidential and therefore cannot be scrutinised nor verified. Furthermore it is impossible to accurately assess what these figures are derived upon and what they represent in reality. It should, however, be noted that most HCA sites are largely risk free, and as such can be developed upon lower margins. These figures are, therefore, not considered realistic for the vast majority of developments and definitely are not typical of market sites.

20. A further point which the study fails to acknowledge is that many of the sites within the plan will be delivered by smaller developers, for whom development costs will be substantially higher. The study at paragraph 4.3 notes that a large proportion of future housing will be delivered by smaller builders, yet paragraph 6.10 argues that BCIS should not be used as larger developers can deliver at lower costs. Whilst the HBF does not agree that build costs will necessarily be lower for larger developments the internal logic of the study is fundamentally flawed.

21. To base costs upon a confidential source which is at the lowest possible end of the spectrum is not considered transparent nor will it enable many smaller developers to even consider entering the market. This will place the delivery of the plan at serious risk.

22. The HBF therefore strongly advise the Council to utilise BCIS, this is consistent with both the Local Housing Delivery Group advice as well as the PPG and numerous appeal decisions.

Contingencies

23. Paragraph 6.26 of the viability report places contingencies at 3.75%. It is recognised that this forms the mid-ground between the original suggestions of 2.5 to 5%. The Council will be aware that many HBF members considered this range to be too low and not realistic. It is therefore recommended that the amount for contingencies be increased.

Abnormal costs

24. Whilst it is noted that a sensitivity test including 10% for abnormal costs is within the report. It is considered this should form part of the core testing, to do otherwise would be contrary to the ‘cautious’ approach advocated within the study. The Local Housing Delivery Group document, page 35, clearly advises that such costs should be based upon discussions with the development industry for different types of sites.

Professional Fees

25. The viability assessment applies a 10% requirement for professional fees, this sits within the average range recommended by the Local Housing Delivery Group, which states;

'..Figures for fees relating to design, planning and other professional fees can range from 8 -10% for straightforward sites to 20% for the most complex, multi-phase sites...' (page 45)

26. It should, however, be noted that large sites may command higher fees due to the inherent complexity of such sites. The HBF disagrees with the DVS figure of 6% which is used as a sensitivity test. It is recommended that this sensitivity test be removed.

Sales and Marketing

27. The viability assessment utilises a 4% costs on GDV. This sits as the average suggested within the Local Housing Delivery Group document. It is, however, worth considering that the 3-5% fees for marketing are intended to cover the national picture and are representative of the fact that some markets are stronger than others and as such less marketing is required. Given that the North East is not a strong market it is considered that a minimum of 5% would be more appropriate and reflective of local circumstances.

Site Acquisition Costs

28. The viability assessment has set these at the lowest end of the scale identified within the Local Housing Delivery Group document, page 35. Which identifies typical values of 1-2% and 0.75-1.5% for agent and legal fees respectively. As a minimum it is suggested that the viability study utilise the averages within the ranges (1.5% agent fees, 1.125% legal fees). This will ensure a wider range of typical costs are captured.

Developer Profit and Overheads

29. Whilst developer profits are variable dependent upon the business model, operating costs and risks involved with individual businesses, funders and sites, 20% of GDV has been widely accepted in a wide number of appeals and local plan examinations. It should, however, be noted that development at any scale, particularly in poorer market areas, carries inherent risks. The HBF therefore does not agree with the 17% assumption for smaller developments. This is particularly relevant given that the Council foresee that many of the sites will be smaller developments and as such these must be attractive to the market. Making smaller profit allowances is unlikely to achieve this.

30. The issue of affordable housing is a quickly evolving picture due to the uncertainties associated with the recent announcements upon welfare reforms. The impact upon private developers is that many social providers are now either reluctant to commit to sites or are pulling out of agreements. This makes the provision of affordable housing significantly more risky.

31. In this context, the Council's references to appeal decisions are irrelevant as these were under different economic conditions for registered social providers. The Council will no doubt be aware of the recent letter to all Councils by Greg Clark MP upon this very issue. Given these uncertainties the HBF recommend that the profit provided be increased significantly and that a blended 20% profit on GDV for both market and affordable housing be utilised across all developments.

Chapter 10: Planning Policy and Obligation Costs

32. The study assumes a notional Section 106 cost of just £500 per dwelling. This appears very low and is unlikely to cover the majority of such costs. The HBF is aware that our members have had Section 106 liabilities far in excess of this amount across Northumberland and that companies have provided specific evidence in relation to this. The Council should have easy access to these figures through their own monitoring procedures.

Chapter 11: Land Values

33. The values identified appear low, and are considered unlikely to '*provide competitive returns to a willing land owner*' (NPPF, paragraph 173). It is strongly recommended that these figures be revisited through further engagement with both the industry and land agents.

Conclusions

34. The HBF has serious concerns regarding the robustness of the study. The use of certain data sources is also concerning as it deviates away from national guidance and is not open to public scrutiny. In its current form the viability assessment is not considered fit for purpose.
35. The foregoing comments are considered critical to ensuring that the viability assessment is built upon a firm evidential basis. This is critical to the successful delivery of the local plan and the much needed housing within Northumberland. I look forward to amendments to the viability assessment in due course.

Yours sincerely,

MJ Good

Matthew Good
Planning Manager – Local Plans
Email: matthew.good@hbf.co.uk
Tel: 07972774229