

For: Sevenoaks District Council

Local Plan Viability Assessment

Preliminary Overview Report

Note of work underway

October 2022

DSP22785

Dixon Searle Partnership

Ash House, Tanshire Park,
Shackleford Road, Elstead, Surrey, GU8 6LB
www.dixonsearle.co.uk



CONTENTS

	Page
1. Introduction - context	1
Nature of preliminary and ongoing assessment work	1
Assessment methodology	5
Scope of preliminary review work	6
Preliminary viability commentary - summary (affordable housing, climate change response & other policy areas)	7
2. More information on assessment approach	11
General notes and limitations	11
Residual methodology – principles	13
Overview of LP Viability Assessment steps	15
Further information on assumptions preparation (development values and costs)	16

We have made every effort to make this document accessible for people with visual impairments. However, it includes detailed information we are required to publish in table format. For this reason, screen readers may not work effectively on all pages. If you need help understanding this document, please call our Planning Policy team on 01732 227000 or email planning.policy@sevenoaks.gov.uk

1. Introduction - context

Nature of preliminary and ongoing assessment work

- 1.1. As part of building and updating its evidence base informing the development of a new Local Plan (LP) for the district, Sevenoaks District Council (SDC) has engaged Dixon Searle Partnership (DSP) to prepare a Viability Assessment (this assessment). The inception for this assessment took place in July 2022.
- 1.2. DSP has worked at a strategic level on similar matters with the Council previously. We prepared the viability evidence for the Council's Community Infrastructure Levy (CIL) which remains in place – assessment completed in 2012; based on the draft Charging Schedule examined in Autumn 2013. More recently (November 2018) DSP completed a further strategic viability assessment¹ to inform a previous iteration of a new Local Plan for the district which was examined in 2019 and subsequently not proceeded with (although not formally withdrawn to date). DSP has also worked with the Council's development management team from time to time on reviewing for SDC viability assessments submitted by planning applicants – viability in planning at the decision taking as well as plan making stage.
- 1.3. The assessment has begun to inform the early stages of policy development on the emerging LP, with the Council having commenced the current process of working towards a new Local Plan in 2021. The new Plan will guide development in the district to 2040.
- 1.4. This is an early stage at which to be looking at viability, with DSP more often than not involved a little later on in the process. However, this involvement is the beginning of a two-way process, feeding into and, alongside other evidence informing the LP's development as it builds from the first informal consultation stage through the expected phases towards examination. Reflecting this, the Council's latest (current) version of its LDS (Local Development Scheme) which sets out an overall timeline for the emerging LP progression is as follows (source SDC's LDS July 2022).

¹ Previous Examination Evidence Base ECO005 Sevenoaks Viability Study (November 2018) – DSP ref. 18542

Figure 1 – SDC - LDS timeline extract (outline of current Local Plan 2040 programme from 2022 through to examination in late 2024)



- 1.5. With the first Regulation 18 consultation stage due shortly, the purpose of this note is to introduce and outline the viability assessment that is underway – provide an initial overview of this. This provides a starting point for the further viability work due to be undertaken. That will progress after this initial phase and in doing so will use and test the more detailed information as that becomes available alongside the further developed picture on the proposed policy LP directions.
- 1.6. Principally during 2023, ongoing information review (including through further stakeholder consultation) and dialogue with the Council will enable DSP to build more fully, review and firm up assumptions in order to carry out a wide range of appraisals. This will lead to full reporting on the proposed LP approach and policies as far as those may be expected to influence development viability, considered alongside usual development costs and national requirements/policy impacts (development costs viewed cumulatively as is appropriate).
- 1.7. At the core of the LP approach, beginning with the forthcoming initial Regulation 18 stage consultation, is likely to be a focus on maximising the potential for sustainable urban development in the district. This would be followed by further evidence base work, review, and policy preparation across the full range of the new LP’s scope. The Council acknowledges that development of a wider nature (encompassing some greenfield as well as previously developed land (PDL)) is also likely to be necessary to support the growth that will need to be planned for. We understand, however, that any Green Belt sites - as far as may be required - are not likely be considered until the second Regulation 18 stage (for consultation autumn 2023); and then on an exceptional circumstances basis only.
- 1.8. Whilst in this case our involvement has commenced at a very early point in the overall LP renewal process (in terms of considering viability), already this has been enabling initial dialogue between

SDC and DSP. The Council's initial information as available to date, together with our wider review and research towards assumptions building, is feeding into this outline (including the preliminary feedback provided in the following commentary) for the Council's use towards the first Regulation 18 stage.

- 1.9. The assessment's appropriate focus is on the proposed LP policies that will have a direct influence on (usually a direct cost impact on) development scheme viability. There are also many factors outside the scope of influence of the Council's policy directions – external effects. The effects of Brexit and then the Covid-19 pandemic did not produce the impacts in the property market expected by many, with the housing market remaining buoyant and prices rising sharply in the last 2 years or so. Market reporting in the last few months has in the main been starting to indicate a slowing of this trend, however, and we will need to see how this picture develops; whether firmer trends are established. At the point of issuing this note to SDC, we have had a change of leadership in Government which is so far bringing in some radical financial policy shifts and resulting in a great deal of economic turmoil, with sterling very weak, rising interest rates and inflation exacerbating the cost of living issues that have been growing owing the war in Ukraine.
- 1.10. All in all, this assessment is getting underway at a time of significant economic uncertainty. To date, generally we have seen housing values increases sufficient to balance out the steeply rising build costs that have also been experienced. Only over the coming period will we begin to see how these matters play out further. The underlying assumption for such an assessment to be undertaken is that there is a functioning development market. With the overall timelines involved in Local Plans, it has to be envisaged that circumstances will change and there will be economic cycles, so that it is not appropriate to prepare the evidence based only upon exceptional circumstances.
- 1.11. Alongside the significant external influence of economic circumstances, the recent period has also been one in which significant changes to the planning system have been proposed and the regulations and standards around more sustainable building have been developing. At this point, these processes, and the uncertainties around them, are set to continue and so remain in place as potential influences on development viability too. There is a greater and increasing emphasis on carbon reduction, with higher standards now in effect (from June 2022) under Part L of the Building Regulations, reflecting the Future Homes (Interim) Standard and moving towards the full standard set to require from 2025 that new homes will need to be capable of being carbon neutral once the energy grid decarbonises. Within the overarching sustainability and environmental theme there is also the national introduction of requirements for electric vehicle

charging provision, Biodiversity Net Gain requirements, more focus on water usage efficiency and (in affected river catchments) Nutrient Neutrality as well as increased emphasis on the accessibility of buildings. Additionally, national level consideration of a potential replacement for the CIL is ongoing. Overall, a wide range of relatively new and developing factors, with further change seeming highly likely.

- 1.12. All in all, although over time we can reasonably expect the development industry and market to adapt and additional (extra-over) costs currently involved in supporting such matters to reduce, we are in a period of increasing requirements and costs generally. The assessment dialogue with SDC will be regular and the information gathering and review will remain open pending final settling of appraisal assumptions. This way, as we go into and through next year, the assessment will aim to remain as topical as possible and representative of potential effects bearing in mind the nature of the emerging LP development and policies in the Sevenoaks District context.
- 1.13. Development values and costs vary over time, with both house prices and build costs having risen significantly in the recent period, as noted above. Having carried out local property values research and a first stage review of information available so far, the next assessment phase following on from and informed by the Council's review of the first consultation stage feedback and further evidence, will involve a refresh of this as far as is practical. The revisited information review and resulting assumptions will inform the running of a typologies-based appraisal exercise to assess the potential viability of the LP policies given latest available information. This will test and explore the likely strength of relationship between development values and costs; together with how that might be affected by the proposed policy positions on key matters such as affordable housing (AH) and by the types of sites and locations for development that are proposed to support the planned growth.
- 1.14. The review of development typologies is expected to include more specialist forms of housing for older people (usually looking at retirement living / sheltered housing and extra care) and which provision is addressed by emerging Policy H4. In this case, within the main settlements (Sevenoaks, Swanley and Edenbridge) built up areas Build to rent (BTR) development is also noted in emerging Policy H5 as potentially part of the overall housing offer coming forward). Likewise, therefore, BTR development is likely to be looked at as a separately appraised form of development, using a different appraisal and assumptions.
- 1.15. Building on the typologies approach that considers viability using representative test scenarios to be agreed with SDC, usually it will also be appropriate to more specifically consider at least some key proposed allocation sites.

- 1.16. The further consideration of AH % levels and tenure types will continue to be a key factor not only because of the level of affordable housing need but also because (with a functioning development market assumed to be in place) this is an area of planning policy which invariably has the most significant impact on development viability. This is due to the affordable homes being very costly to provide. In order to make them as affordable as possible those dwellings produce a low revenue level for the developer (which for mixed AH tenure overall is around half of the market sale homes value) while costing broadly the same to provide.
- 1.17. A key aspect of the viability assessment and the dialogue around it will be looking at options for and ultimately informing a suitable overall balance between the provision of affordable housing and other matters; levels of other policies and obligations that will all need to be considered together (cumulatively) in order to ensure that development can come forward sustainably, meeting appropriate standards and supporting the appropriate infrastructure. The first stage regulation 18 consultation will be putting forward proposed AH provision levels (%s) based on the previous LP iteration evidence (as noted above) but subject to further consideration in light of the updated circumstances as are beginning to be considered in this note.

Assessment methodology

- 1.18. The viability assessment uses the principles of residual valuation. This involves deducting the estimated costs of development and deducting those and the developer profit from the completed scheme value (gross development value or 'GDV'). This results in viewing the scope to create a 'residual land value' ('RLV') as the varying potential policy costs and other variable inputs are adjusted across a wide range of appraisal trials (sensitivity tests).
- 1.19. Necessarily using assumptions and judgments throughout, the appraisal RLV levels are compared with 'benchmark land value' ('BLV') levels which broadly represent suitable landowners' returns. Judgements on placing the BLVs are made on an existing use value ('EUV') basis as the key to an approach known as 'EUV plus'. Within this an allowance is made for an uplift (premium) over the EUV to suitably reflect an owners' release of land from its current use.
- 1.20. The assessment is being carried out and will continue to be progressed in line with the principles within the National Planning Policy Framework (NPPF) and the Planning Practice Guidance (PPG) on 'Viability', with the latter the key source of "how to" on this and now also reflected in the renewed guidance of the RICS ('Assessing viability in planning under the National Planning Policy Framework 2019' - 1st edition, March 2021 – effective 1st July 2021).

1.21. The approach also benefits highly from long and wide experience of good practice from conducting similar assessments, with all of this applied to the Sevenoaks District local characteristics and leading to an appropriate, proportionate assessment overall; ultimately supporting the new LP having informed it alongside other evidence again as noted above.

Scope of preliminary review work

1.22. In addition to considering sources of suitable assumptions and the initial values research, DSP has overviewed the emerging LP ('Plan 2040') policy scope at a high level in order offer some initial commentary on this – as outlined below. This is pre-appraisals stage currently and so subject to review on developing the assessment detail in that way.

1.23. At this stage, and an approach likely to be carried through into the assessment detail, the focus is on the preparation of the Plan 2040. In regard to the support of infrastructure requirements, our assumption is likely to continue to be that the Council's existing CIL will remain in place in the short term; with charging applied at latest indexed rates and noting that alongside this any s.106 obligations (e.g. specific infrastructure provision / development mitigation) considered necessary to make development accessible may be put in place.

1.24. At this stage it is anticipated that the assessment will also go on to include the high level review of selected commercial/non-residential development typologies. The purpose of this will be to further inform the development of the Plan and provide information for SDC on whether the existing CIL charging approach and rates on such development uses are likely to remain appropriate (should the infrastructure contributions regime continue to include the CIL or a similar form of Infrastructure levy). The scope of that part of the assessment is yet to be settled, with the focus initially at least on reviewing the viability of residential development. The reason for this focus first on review of the emerging LP policies is that typically it is on residential development that the locally set policies have a far greater influence on viability compared with a much smaller influence on other scheme types. At this stage, this is expected to be the case here. As per the earlier viability assessment work, currently it appears that the only direct policy influence on the cost of commercial and other developments is likely to be related to sustainable construction (and then with local policy not expected to go beyond national level requirements, such as applied through the Future Building Standards or similar initiatives). However, this can be considered further as the wider evidence and detail develops. Any more specific policy content can be considered as part of the assessment assumptions. Bearing in mind the Council's overarching aims (including Net Zero ambitions), this scoping can include any wider climate

change response policies that are likely to have a direct and measurable impact on developments generally; or on specific larger / strategic schemes. In respect of the continued use of CIL, there is a related point to offer here, which is that it may be appropriate to consider revised or further differentials when looking at various site and scheme types. On this, strategic scale development may also warrant a different charging approach (for example lower or nil rating potentially). Likewise, it is also possible that moving ahead a varied approach to the treatment of different elements of infrastructure funded by the CIL / s.106 may be relevant.

Preliminary viability commentary - summary

- 1.25. More is provided on this below, with a summary outline of some key points quickly noted here for ease of access.

Affordable Housing

- 1.26. At the time of putting together this report, there are suggestions at a Government level that consideration is currently being given to a raising of affordable housing (AH) policy threshold nationally (so that this key area of policy might not apply to sites providing fewer than perhaps 40-50 dwellings). This is unconfirmed but one of the many policy areas potentially under review within the scope of potential planning reforms. However, this type of influence aside, affordable housing represents one of the few policy areas over which the individual plan making council is largely in control in terms of the detail (subject now to the national requirements for First Homes as part of this). Costing the most to provide (as above) it is also the area in which adjustments to requirements mean the most balancing scope with other currently growing development costs. With other optional / variable policy areas having a lower cost impact, adjustments to those do not have the same degree of balancing scope – where that is needed. Proposed Policy H2 of the emerging Plan 2040 addresses AH provision.
- 1.27. Consistent with the previous evidence and the initial reg. 18 Plan 2040 drafting, it is considered likely that AH policy parameters in the range 20% to 40% overall (covering all applicable tenures) are likely to continue to be appropriate, overall.
- 1.28. Within this picture, and as initially proposed for the consultation, it is also considered likely that a significant differential will be needed and will be appropriate between affordable housing expectations on sites comprising previously developed land (PDL i.e., brownfield) and those applied to greenfield (GF) development.

- 1.29. To this stage, on major developments the SDC drafting (within Policy H2) is proposing a potential 30% AH headline on PDL; 40% on GF. The detail of the viability assessment as it progresses will need to consider these positions and potentially test around them, exploring the impact on viability when considered cumulatively with typical development costs and the other proposed policies and standards (including those set at a national level).
- 1.30. The nature of PDL sites and proposals as that picture settles and more information becomes available is likely to be key to how the assessment and findings develop on the scope to viably support AH provision in different circumstances, and perhaps especially bearing in mind the LP focus first on urban area development potential and related strategy. The nature of sites and especially key sites in the overall Plan 2040 context will be fundamental to this. Density is likely to be a key influence too, amongst the various factors involved in this. As a general point only, higher density (more efficient use of land) is likely to help viability overall on such sites providing there is demand for the dwelling types and other development proposed. However, there may also be a balance to consider with the construction and other development costs likely to be involved. At this stage, we offer a high-level point that the often relatively complex redevelopment of town centre or other similar sites together with their typically higher existing use values tends to make those types of schemes and their viability amongst the most challenging. Similar may be true of other 'strategic' scenarios where costly infrastructure provision or in some cases particular abnormal development issues and costs may also factor into this significantly. Alongside a latest view of development costs in general, these may be factors that come into play in further considering the AH and potentially other policies as those are refined / firmed up in due course.

Other emerging policies - Biodiversity

- 1.31. In terms of other policies, current stage review of the proposed direction of these appears likely to be consistent or generally consistent with national policy expectations / requirements on the whole. At this stage, a policy area that we have noted to go beyond the current national direction is the proposal to require a 20% Biodiversity Net Gain (BNG) compared with the expected minimum base 10%. We are aware that there is Kent based evidence² for this proposal and although we note this will require the use of bespoke assumptions adjusted for this study compared with the base level, the likelihood is that this requirement will not have a significant scheme viability impact; the direct additional costs involved are considered to be small. The

² Viability Assessment of Biodiversity Net Gain in Kent (Kent County Council – SQW and temple Group) June 2022.

proposed locally increased BNG requirement is proposed within emerging LP Policy BW2 (Biodiversity in New Development).

Climate change response – Sustainable construction / carbon reduction

- 1.32. The emerging Plan approach to climate change response does not appear to go beyond national requirements (as currently reflected through overarching Policy proposals such as CC1 and CC2, and also reflected within the housing provision policies - such as H1, H4, H5, H6). Provisionally, the currently proposed scenario here is likely to be best represented by the assessment allowing for meeting the full applied Future Homes Standard or equivalent, which is due to take effect from 2025 and at this stage likely to align broadly with the Plan 2040 adoption timing, all as noted above.
- 1.33. Included within the assumptions, the assessment will also allow for the provision of electric car charging (reflecting emerging Policy T4 – Electric Vehicle Charging Points).

Water

- 1.34. Similarly, while the emerging LP standard on water usage efficiency (under Policy W3 – Water Management, Stress and Efficiency) is set to require consumption not exceeding 110 litres/person/day and therefore go further than the base Building Regulations requirement at 125l/p/d, this in our experience does not add a detectable level of extra build cost at this level of review and does not go beyond many of our clients' positions on this aspect.
- 1.35. There is no nutrient neutrality issue to address in Sevenoaks District. This is worth noting as we are finding that in some other areas where we are preparing similar assessments, the relationship between new housing supply and river catchments is currently meaning allowances or provisional allowances for significant mitigation related costs. The absence of this mitigation costs here will be a positive influence on viability compared with the emerging scenarios in some other instances (other areas); noted simply for further information.

Accessible and adaptable dwellings

- 1.36. The emerging housing policies are likely to seek 5% dwellings to Building Regulations Part M4(3)(b) (i.e. wheelchair user ready dwellings) which represents additional cost over the base position now within national policy driven assessment assumptions at 100% dwellings to M4(2). Some enhanced provision relative to base standards is again not beyond the expectation of many

of our LA clients in Plan Making, but on building the assessment detail it will be necessary to both factor in the 95% M4(2) and consider the extra over cost associated with 5% to M4(3)(b). At this stage it is understood that the latter may be linked to the rented affordable housing provision.

Infrastructure (including sustainable transport and highways, education, open space and recreation, community provision, health, and other service areas)

- 1.37. Alongside allowing at this stage for the SDC CIL charging schedule costs, the assessment will need to take account of any particular requirements that will typically be expected to be supported and including likely specific requirements on larger / any strategic or exceptionally released sites. In due course it will be appropriate to consider this further, either through applying available cost estimates and / or formula driven contribution levels; or where not available potentially consider the viability scope available to support additional costs that have not been addressed by specific assumptions (included as appraisal inputs). Amongst the other factors provisionally noted here, upon review of further information these may be costs that could be found to affect matters such as the achievable affordable housing tenure or level.

2. More information on assessment approach

General notes and limitations

- 2.1. The new Local Plan must be prepared in accordance with the National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG). Viability testing is an important

part of the plan-making process and national policy sets a clear requirement to test the deliverability of Local Plans and assess the viability of sites and policies contained within them. The settled levels of obligations and developer contributions will need to be clearly set out as informed by both the needs and the viability work.

- 2.2. Ultimately, the development identified in the emerging plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is unduly threatened overall. This is not the same as being absolutely certain that all schemes, viewed individually, will be viable with all requirements because some will be inherently challenging in any event, given their nature. All sites are different. Viewed at an appropriate, proportionate level for Plan Making stage, small changes to assumptions can be seen to have a significant effect on the viability indications.
- 2.3. In terms of national policy, currently there remains little detail available on the planning reforms remaining and proposed for introduction as part of the Government's 'levelling up' agenda, however it appears that a form of largely locally set 'Infrastructure Levy' is to be continued or brought in. Any further details of this will need to be considered in due course, assuming proposals for change are progressed. However, we aim to set up the basis of this viability assessment in a way that can be updated or built upon as may be appropriate on subsequent review.
- 2.4. The assessment hinges around being able to monetise the emerging policy set in order to understand the likely impact of policies on viability (at varying levels as appropriate) when considered cumulatively with the usual development costs and any national policy influences. We need to consider how the strength of the relationship between development values and costs (as far as estimated at this stage) varies across the types of circumstances likely to be relevant to the Plan. From the point of view of sustainable development and normal planning criteria, other policies will have indirect implications and as such do not need to be specifically reflected in assumptions.
- 2.5. In the early appraisal stages to come, the assessment is likely involve conducting initial sets of iterative of viability testing to help inform the further developing policies. Conducted in this way, the project can both inform and go on to support the LP approach. The assessment requires a significant number of assumptions to be made. These will in many cases involve judgments but should be informed by recognised information sources that will be set out in detail within the full reporting in due course.

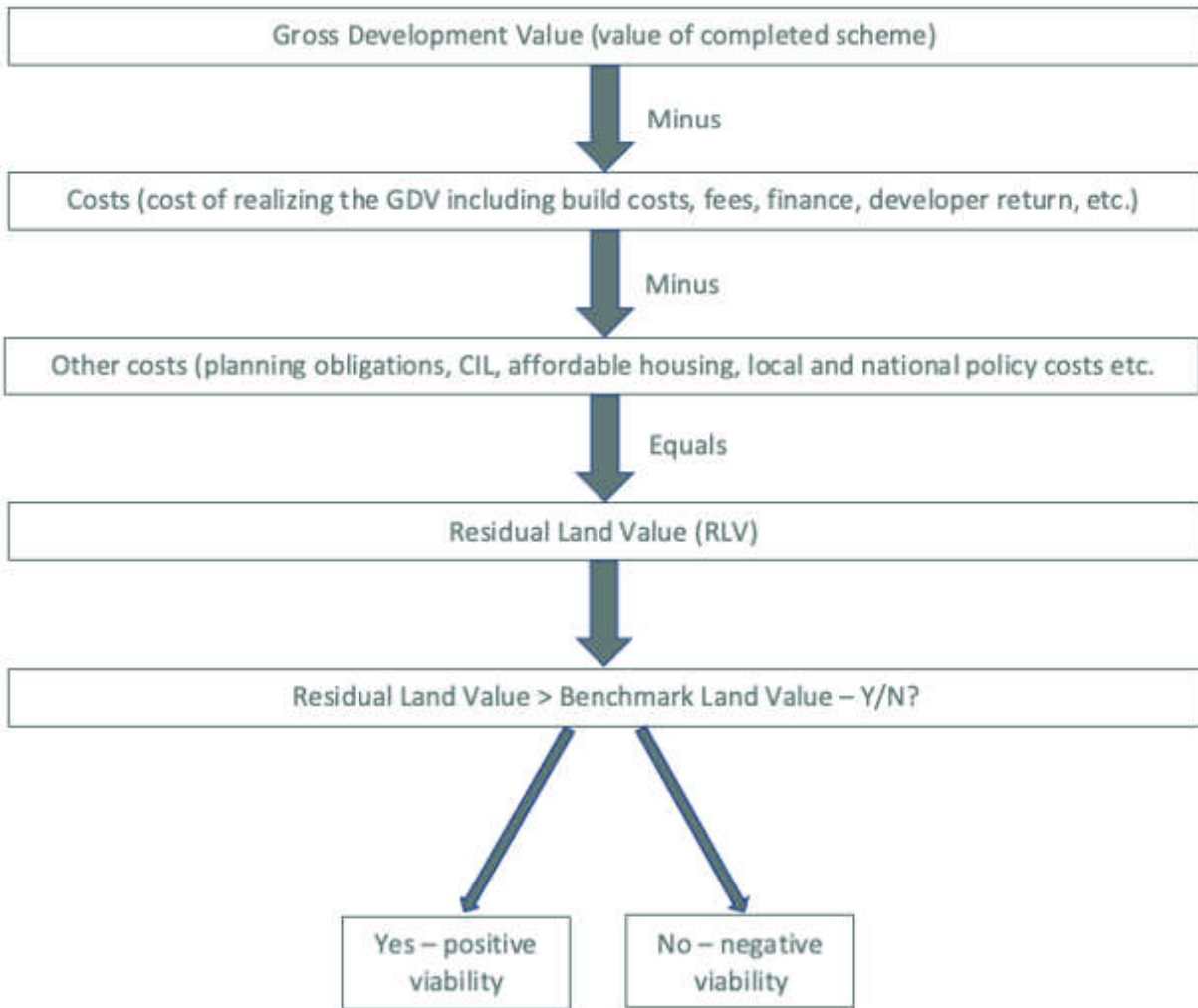
- 2.6. As has been noted above, this first update for SDC must be considered very high-level at this stage – provision of some pre-assessment indications only, effectively. Any preliminary indications are quite likely to change once further information is available for DSP’s review and to inform ongoing assumptions that are as representative of the local circumstances as possible.
- 2.7. This brief initial report is also informed by our recent and current experience of what new housing development of a likely relevant local value level is generally found able to viably support, in terms of cumulative development and policy costs. As it builds over the next stages, the viability information will help inform a view on the relative costs of different requirements, and how these might need to trade-off against each other in some cases. In our experience this sort of approach likely to be relevant to some degree as part of SDC making choices within an overall balance. Typical experience shows that there is usually a need for some level of compromise compared with the full list of desired provision (fullest extent of planning objectives).
- 2.8. The assessment does not and will not provide formal valuation advice. As per the subsequent reporting stages, this document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.
- 2.9. DSP conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. From time to time DSP also undertakes the review of site-specific viability assessments (at decision making i.e., planning application or similar stage) on behalf of a SDC and some other Kent authorities as well as many others nationwide – in addition to our above noted work on strategic level viability with this authority in the past.
- 2.10. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive / performance related payment. Our project costs are simply built-up in advance, based on hourly / day rates and estimates of involved time. We confirm that in the preparation of this assessment DSP has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

Residual methodology – principles (and benchmark land values)

2.11. For more of an insight into the assessment approach, Figure 2 below (see following page) provides an illustration of the residual methodology used in this way (residual referring to the amount left over after meeting the estimated development costs including profit from the estimated value) and therefore indicated to be available for land cost which is then compared to the assessment of benchmark land value (BLV). After noting more on the assessment approach, later in this section we will note the source of assumptions that we will expect to make, reflecting experience of good practice from a wider range of similar studies.

Figure 2: Outline of residual land valuation approach

(Flow chart diagram indicating approach to residual valuation calculation and relationship of RLV (residual land value) to BLV (benchmark land value) – as will be used in the appraisal and results reviewing process for the assessment)



(DSP 2022)

2.12 For greenfield land, we will expect to use BLVs in the main at £250,000/hectare (ha) applied to the gross (overall) area of the typology and more specifically tested sites; potentially rising towards £500,000/ha for small developments. These BLV levels reflect approximately 10 times existing use value, with the uplift being the ‘plus’ element i.e., landowner’s incentive to sell for a change of use for development. The BLVs suitable for measuring the appraisal RLVs on PDL site typologies will need to be considered when we prepare the typology appraisals and review any specific site redevelopment proposals.

2.13 In keeping with our established assessment approach, as has been examined previously, various information sources including any stakeholder responses will be considered in settling the

judgments made on an appropriate range of BLVs. To this stage and consistent with our experience we expect to use indications from the MHCLG Land Values for Policy Appraisal document together with other available pointers on appropriate BLVs, which we will need to continue to consider.

2.14 The previous assessment assumptions on BLV for PDL sites included a range from £1.5 to approximately £4.5m (million) per hectare. Whilst at this stage it is unlikely that the most relevant areas of this range will have changed significantly for this new assessment, this will be another area of the assumptions that we review further on moving ahead.

Overview of LP viability assessment steps

2.15 At project inception we set out an initial draft project plan which will necessarily remain flexible as the Council's LP preparation work and this assessment evolves.

2.16 So far, we have conducted the following - in brief summary:

- Project inception and briefing with SDC.
- Information review (including draft emerging policies scope) and values research.
- Development industry and affordable housing provider (Registered Providers (RPs)) stakeholders invitation to submit survey responses for review as part of assessment assumptions building. The later assessment stages are likely to involve further liaison with stakeholders and particularly in respect of any larger / strategic site allocation proposals. The full reporting in due course will provide details of the process undertaken and summarise in a non-specific and unattributed way the nature of responses received. So far, the response level has been low, which we have found to be typical overall.
- Initial updating (via this mini report)

2.17 The following is a general outline of the provisional approach – likely next steps towards the full LP viability assessment (potentially subject to review as LP progression and assessment circumstances evolve):

- Review and clarifications phase – consider further information as it becomes available to enable meaningful progression of the next project phases; ongoing liaison with SDC / others working with SDC.
- Further development of / assumptions updating – supported by above, further build-up and / or updating of assumptions following.

- Stakeholder consultation – further (specifically targeted) consultation with site promoters for the key / strategic sites to be tested. Depending on timings and events or changed circumstances to date / new information scope, potential refresh of the wider stakeholder consultation exercise.
- Appraisal modelling – enhanced range of typology testing with refined policy set and using updated information as far as available together with directed appraisal of strategic scale development proposals relating to preferred option(s) using specific information again as far as available.
- Further results review - following the above, appraisal results considered and summarised / tabulated appropriately to inform interim reporting. Potential additional sensitivity testing.
- Interim / draft reporting – provide further developed findings and recommendations to inform the plan.
- Further clarification phase – address / discuss any arising queries including potential adjustment, any additional sensitivity testing and refining of results presentation etc.
- Final reporting – preparation of final full reporting providing fully developed assessment information and findings.

Further information on assumptions preparation

Property market and housing sales values review

2.18 The dwelling mix assumptions adopted in the assessment appraisals will be informed by SDC's 'Targeted Review of Local Housing Needs 2022' ('TRLHN') as is referenced in current stage emerging policy H1 – Housing Mix. Assumed dwelling sizes will be informed by the ranges set out within the **Nationally Described Space Standard** (NDSS); minimum sizes expected to be met. This has been a typical approach within our viability assessments for a number of years.

2.19 Across all property types, the Land Registry House Price Index (HPI) has increased since the completion of our last reporting for SDC from 121.0 (January 2019) to a latest published figure at September 2022 (July 2022 data given the lag) at 155.1. Over this period, viewed across all property types, this represents house prices having increased overall by 28% over a period of approximately 3.5 years.

- 2.20 For our assessment finalised November 2018, we explored viability across a range of market sale property value levels ('VLs') £3,500 to £7,000/sq. m (£ per square metre) overall – i.e., approximately £325 to £650/sq. ft. (£ per square foot).
- 2.21 The following overview was set out for our values assumptions (market homes sale values) – see Figure 3 on following page (extract from our November 2018 assessment report ref. DSP 18542 - Figure 8, page 27 in that report):

Figure 3 – Value Levels (VLs) test range used in assessment completed November 2018.

(Table extracted from DSP’s November 2018 completed Viability Assessment report reference 18542 showing the range of VL (value level) tests applied to market sale housing in that – Expressed in both £/square metre and £ value levels along with indications of their relevance to Sevenoaks District Ward areas at the time).

Market Value (MV) - Private units	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11+
Indicative relevance of VLs range to SDC Ward Areas											
			Swanley White Oak / Crockenhill & well Hill / Hextable			Dunton Green & Riverhead / Kemsing / Halstead, Knockholt & Badgers Mount / Seal & Weald					Values typically above those regularly seen for new build locally
		Swanley St Mary's / Farningham, Horton Kirby & South Darent / Edenbridge S&W / Swanley Christchurch & Swanley Village / Fawkham & West Kingsdown		Hartley & Hodsoll St					Brasted, Chevening and Sundridge / Westerham, & Crockham Hill / Sevenoaks Town & St John's / Sevenoaks Eastern / Otford & Shoreham		
		Ash & New Ash Green / Edenbridge N&E		Sevenoaks Kippington				Leigh & Chiddingstone Causeway / Eynsford			
1-bed flat	£175,000	£200,000	£212,500	£225,000	£237,500	£250,000	£262,500	£275,000	£300,000	£325,000	
2-bed flat	£245,000	£280,000	£297,500	£315,000	£332,500	£350,000	£367,500	£385,000	£420,000	£455,000	£490,000
2-bed house	£276,500	£316,000	£335,750	£355,500	£375,250	£395,000	£414,750	£434,500	£474,000	£513,500	£553,000
3-bed house	£350,000	£400,000	£425,000	£450,000	£475,000	£500,000	£525,000	£550,000	£600,000	£650,000	£700,000
4-bed house	£455,000	£520,000	£552,500	£585,000	£617,500	£650,000	£682,500	£715,000	£780,000	£845,000	£910,000
MV (£ / m²)	£3,500	£4,000	£4,250	£4,500	£4,750	£5,000	£5,250	£5,500	£6,000	£6,500	£7,000

(DSP 2018)

- 2.22 Our latest equivalent values research exercise for building the current assessment (review as at July 2022) provided the following on sales values – see figure 4 below (following page). This was prepared using Land Registry sales price data for new build (only) properties, with recorded prices updated using the HPI (Sevenoaks adjusted) to the research point. The EPC (Energy Performance Certificates) register was used for dwelling size information where this was not directly available or was uncertain.
- 2.23 We note that there is usually an inverse correlation between floor area and values expressed by unit area – so that smaller dwellings will often indicate higher £/sq. m pricing. We consider that flatted development will typically achieve sales values at the upper end of the local range when viewed in this way.
- 2.24 However, as normal in any area, there are exceptions whereby higher and lower values can be seen within an area and even within a site or between nearby sites; an overview has to be taken at Plan Making stage.

Figure 4 – updated review of new build sales values – Land Registry data.

(Table summarising DSP’s updated research (July 2022) on market new build housing sale values - data viewed by Sevenoaks District Ward area again. All information to be revisited / confirmed on further progressing the assessment)

Summary of dwelling type prices & values									
Dwelling Type	Average of Uplifted Sale Price	Average Value /m ²	Minimum	Q1	Median	Q3	Maximum	Sample	
Detached	£751,318	£5,488	£4,040	£4,732	£5,553	£6,232	£7,945	60	
Flat	£366,205	£5,718	£1,600	£4,787	£5,458	£6,436	£10,459	136	
Semi-detached	£506,601	£5,144	£4,076	£4,820	£5,345	£5,517	£7,371	65	
Terraced	£533,301	£5,271	£1,858	£4,740	£5,267	£6,227	£9,283	76	
Grand Total	£499,534	£5,428	£1,600	£4,761	£5,381	£6,222	£10,459	337	

Summary of ward prices & values									
Ward Area	Average of Uplifted Sale Price	Average Value /m ²	Minimum	Q1	Median	Q3	Maximum	Sample	
Cowden and Hever	£761,139	£6,841	£6,352	£6,575	£6,859	£6,979	£7,945	15	
Dunton Green and Riverhead	£384,577	£5,975	£2,577	£6,061	£6,309	£6,567	£7,690	22	
Edenbridge North and East	£440,414	£4,808	£1,600	£4,441	£4,981	£5,401	£6,058	102	
Farningham, Horton Kirby and South Darenth	£568,335	£4,800	£4,086	£4,178	£4,549	£5,639	£7,059	5	
Fawkham and West Kingsdown	£1,488,126	£6,476	£6,188	£6,207	£6,308	£6,605	£7,080	5	
Hextable	£473,833	£6,548	£5,849	£6,132	£6,531	£6,809	£8,357	19	
Leigh and Chiddingstone Causeway	£644,805	£4,976	£4,076	£4,608	£4,825	£6,134	£7,496	21	
Seal and Weald	£1,040,103	£5,916	£4,360	£4,991	£5,395	£8,070	£9,624	10	
Sevenoaks Town and St John's	£596,489	£6,842	£3,975	£6,314	£6,882	£8,475	£10,459	22	
Swanley Christchurch and Swanley Village	£328,061	£4,873	£4,117	£4,677	£4,981	£5,378	£6,413	68	
Swanley St Mary's	£430,724	£5,462	£4,407	£5,275	£5,516	£6,464	£6,657	27	
Swanley White Oak	£515,903	£5,701	£4,851	£5,806	£5,911	£6,190	£6,289	14	
Westerham and Crockham Hill	£861,825	£5,484	£4,375	£5,244	£5,677	£5,981	£7,798	7	
Grand Total	£499,534	£5,428	£1,600	£4,761	£5,381	£6,222	£10,459	337	

(DSP 2022)

- 2.25 Currently, the indications are that we will expect to test the viability of housing schemes in the district using an updated series of value level (VL) sensitivity tests covering the range approximately £4,000 to £7,000/sq. m (approx. £372 to £650/sq. ft. in the main. Within this, the above noted median value level for new build homes overall is indicated to be at around £5,400/sq. m (approx. £502/sq. ft.) – district-wide view only, across all property types. We have also been considering general market (resale property) values in the district. As a general point, we are likely to need to see whether and, if so, how this overview of values may have changed by the time we progress with the further assessment detail. How this influences and impacts will of course also depend on how the picture “overlays” with a more settled view of the emerging development strategy and site supply locations within that.
- 2.26 Reflecting the guidance (‘Viability’ section within the PPG), the assessment assumptions will be sourced from and informed by suitable, recognised sources which will be set out in an approach based on established good practice and wide ranging experience of assessments taken through from inception to examination stages. The assumptions sources / bases and their level will be stated with the full reporting detail prepared in time. At this point, we will provide initial indications of the likely source of other typical assumptions areas (again focusing on housing development initially) – see the following sections.

Affordable housing revenue (value of AH)

- 2.27 SDC’s above noted TRLHN evidence will also inform the approach on affordable the housing tenure mix that will be targeted through the LP approach. This indicates a requirement for 65% rented AH with the remaining 35% as intermediate. The affordable housing values assumptions for the assessment will be considered by tenure type. As an early indication, those are likely to be in the range approximately 40% to 70% of market value, representing a mix of rented homes up to the more viable home ownership routes of shared ownership tenure and the 25% First Homes that will now need to be included (subject to a discount in any event at a minimum 30% market value and the nationally prescribed £250,000 price cap after discount).
- 2.28 Currently, the Council’s supporting text wording to Policy H2 notes: *‘Where the provision of on-site affordable housing applies, the recommended tenure split should reflect the latest housing needs evidence (Targeted Review of Local Housing Needs 2022) – 58% social rented, 7% affordable rented, 25% First Homes and 10% other intermediate tenures. First Homes should be offered at a discount of 50% of open market value.’*

2.29 The Council's intended approach to delivery of affordable tenure and in particular First Homes within the district may well need to be considered in more detail to feed into the assessment assumptions; looking at which property types are likely to be workable within the national criteria. The approach provisionally selected is due to the effect of very high local property values likely having the effect of restricting the First Homes here to the smallest dwelling types. From our wider work to date on First Homes, we have found that at the minimum 30% discount these are likely to be similarly viable (or perhaps slightly less viable) to support than the shared ownership. A higher discount level, such as noted so far, would almost certainly be seen to have a notable negative impact on viability and might involve other adjustments to balance viability at a suitable level in at least some circumstances. Should the consideration of a higher First Homes discount level be taken forward as the policy detail progresses, it will be possible to sensitivity test the potential influence of this on viability (potential sensitivity testing based on sample typologies for example).

2.30 So, as an early indication, social rented homes produce the greatest viability impact (support the lowest proportion of market value as scheme revenue), with affordable rented being less affordable but more viable; and the intermediate i.e., affordable home ownership offer being the most viable form of affordable housing to provide. Accordingly, the TRLHN headlines (as per 2.27 above) based high proportion of social rented housing is likely to be demanding on scheme viability, as is the provisional approach to First Homes.

Other emerging assumptions – general development costs (again, all assumptions details under review – to be confirmed)

Housebuilding and related costs

2.31 Again, reflecting established practice, the **housebuilding costs** assumptions (base build costs – constructing houses and flats) will be sourced from average data provided by the RICS Building Cost Information Service (BCIS). We will expect to use a range of categories within the BCIS dataset of median costs, selecting the maximum 5 year old data as best reflecting latest standards (unless the sample size on that basis is very small); rebased using the Sevenoaks location factor in all cases. The categories used will be selected to reflect the nature of development represented by the development typologies that will be appraised (based on or similar to the approach used in our previous assessment³. Again, as part of a typical approach and development appraisal, where flats (apartments) are assumed, an allowance will be made for the construction of the

³ Previous Examination Evidence Base ECO005 Sevenoaks Viability Study (November 2018) – DSP ref. 18542

communal areas whereby the sales area can be expected to be approximately 85% of the overall build floor area (known as a net/gross floor area adjustment or similar).

- 2.32 The relevant BCIS data categories may again be Mixed Developments (houses and flats), Estate Housing, Flats and Supported Housing.
- 2.33 For the appraisal of any strategic or other larger scale development, i.e., involving volume housebuilding, we will expect to use the equivalent BCIS data but based on the lower quartile cost set reflecting economies of scale.
- 2.34 **External works** (reflecting plot works and usual estate roads and landscaping etc.) will be represented by a cost assumption added at 7.5 to 15% (likely base 10%) base costs. Additionally, for the general typologies we will expect to apply a cost for **enabling and site-wide / infrastructure works** provisionally at approx. £500,000/hectare. Equivalent assumptions will be approached in a more specific way and likely reflecting higher costs on any strategic scale sites to be appraised (typically based on per dwelling costs at around £20,000 upwards, but again with the details dependent on the circumstances reflected from site to site, where applicable).
- 2.35 Build cost **contingencies** will usually be applied at a base 5% but depending on the nature of sites and schemes being represented by the exercise may vary between 3% and 10%.
- 2.36 **Professional fees** will usually be applied at 8 – 10%.
- 2.37 Additional assumptions will be made on costs allowances representing **sustainable construction** (carbon reduction likely reflecting Future Homes Standard 2025 currently at approximately 2 to 7% over based build costs depending on circumstances), **Biodiversity Net Gain** currently at approximately plus 0.8% to 3% (based on the Biodiversity Net Gain Impact Assessment - Natural England - Table 19-20) and **electric vehicle charging** (current cost allowances in the region of £865 per house and £1,961 per flat)⁴.
- 2.38 The provision of homes to **Building Regulations Part M4(2)** will also be reflected within the allowances, currently calculated by DSP at an additional cost of approximately £15.50/sq. m on average. At this stage we note that any element of M4(3)(b) provision (wheelchair user ready homes) firmed up with the final policy set (most likely as part of the social rented affordable housing) is likely to have a cost impact at perhaps around ten times (x 10) M4(2) cost levels. The

⁴ Cost indications from Department for Transport (DfT) Residential Charging Infrastructure Provision Impact Assessment (September 2021)

assumptions that we currently make on these elements are high-level cost indications based on the analysis as described in the 'Raising accessibility standards in new homes' consultation⁵.

- 2.39 **Site acquisition costs** will be allowed for, with typical allowances made for agent's (1 to 1.5%) and legal fees (0.75%) alongside stamp duty.
- 2.40 **Costs of development finance** will be assumed based on a reliance on debt finance for the whole scheme including land costs, currently typically applied based on an interest rate at 6 – 6.5% reflecting all costs, applied over overall development programmes that consider lead-in, construction and sales periods – with sales off-set from the construction timings by usually 9 to 12 months (i.e., to first assumed completions). Selling rates will usually be applied based on assumption of approximately 1 sale per week per sales outlet, but with assumptions on this and all of these related matters considered according to the scheme typology or site specific appraisal being considered.
- 2.41 **Costs of marketing and sale** are typically allowed for at 2.5 to 3% GDV (gross development i.e., total sale value) with sales legal costs usually reflected by a typical assumption of £750 – 1,000 per dwelling.
- 2.42 As a key ingredient of the development process, **profit** reflecting the risk involved will be included at a fixed level in arriving at the residual land values (RLVs). Consistent with the range set out in the PPG for plan making (15 – 20% GDV), at this stage we will expect to use a mid-range assumption at 17.5% GDV (reflecting the length of the plan period and development through varying market cycles overall) and are likely also to sensitivity test this at the upper end level of 20% GDV on at least some scenarios. Affordable housing profit levels will be placed at 6% GDV (AH revenue) and informed by experience to date we can expect to assume the profit on the First Homes element at an intermediate level (around 12% GDV) reflecting sales risk levels in between those relevant to the traditional affordable (rented and shared ownership or similar) and market homes development.
- 2.43 The typologies selected and appraised using the type of assumptions outlined above are likely to be similar to those assessed within the previous assessment, as referenced again above, but this time reconsidered in light of an updated view of the nature of the site and scheme types likely to come forward to make up the new LP growth supply. Accordingly, the assumed densities (dwelling numbers per ha) and related net developable site areas as well as gross (total) sites areas allowing for open space and other green infrastructure and the like (and / or contributions

⁵ MHCLG Consultation September 2020 and DLUHC response July 2022

reflecting required off-site arrangements) will all be informed by the shaping of these typologies for appraisal in due course.

- 2.44 An equivalent process will then also be run using more specific information as far as available at the time on the actual sites to be assessed. The building up of the typologies and view on the scope of specific site appraisal work will be discussed and agreed with the Council, informed by developments towards the new Local Plan preparation in the meantime.
- 2.45 We iterate that the above provisional guides to the likely assumptions basis are all subject to further consideration – review / updating and alignment to the typologies, sites and policies that will be appraised to reflect the circumstances in the Sevenoaks District. This means that at an appropriate level, the assessment and findings will draw upon an established and tested approach combining wider experience with a review based on the local characteristics and Plan 2040 content.
- 2.46 **This note presents an early stage overview of the viability assessment work underway on the new ‘Plan 2040’ preparation for Sevenoaks District Council - its scope and direction generally.** DSP will be pleased to continue working with the Council on this important and developing contribution to the LP evidence base. We will of course be happy to respond to any initial queries – and to discuss this progress and preliminary review of general points noted here if SDC requires.

Preliminary Overview Report text ends
Local Plan Viability Assessment
Note of work in progress

DSP v1.4 October 2022