For: Sevenoaks District Council

# Regulation 18 Stage - Local Plan & CIL Viability Assessment

## Interim Report

October 2023

DSP22785

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# 1. Introduction - context

1.1. Sevenoaks District Council (SDC) is preparing a new Local Plan (LP) which will guide development in the district to 2040. The Council has undertaken a first stage of consultation (Regulation 18 – Part One: Settlements) between November 2022 – January 2023 which focused on exploring optimising densities and maximising opportunities in existing settlements (using previously developed land - PDL) as the most sustainable locations in the district. However, following this consultation process it is clear the district is unable to meet the severe needs requirement within existing urban areas and therefore the Plan needs to consider the potential contribution of some greenfield and Green Belt land.

1.2. The next stage consultation (Regulation 18 – Part Two), taking place in Autumn 2023, considers three growth options in addition to those sites already found to be suitable through the Strategic Housing Employment Land Availability Assessment (SHELAA), as follows:-

- Option 1 – multiple sites on the edge of higher tier settlements e.g. Sevenoaks, Westerham and West Kingsdown (located in the Green Belt and Area of Outstanding Natural Beauty (AONB);
- Option 2 – stand-alone settlement in a single location;
- Option 3 – a combination of Option 1 and Option 2.

1.3. The Council has engaged Dixon Searle Partnership (DSP) to prepare a Viability Assessment to understand the likely impact on viability of the emerging LP policy proposals (focusing on those policies likely to have direct cost implications for new development) as well as the potential viability of the above growth options.

1.4. DSP's involvement began to inform the early stages of the emerging LP as part of the Regulation 18 – Part one consultation. We prepared a 'Preliminary Overview Report' (dated October 2022 and published alongside the Part one consultation ran between November 2022 and January 2023), which introduced and outlined the viability assessment process underway. It included high-level commentary on key emerging policy areas, viability testing methodology and likely assumptions scope, alongside key principles for consideration.

1.5. 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 assessment to inform a previous iteration of a new Local Plan for the district which was examined in 2019 but subsequently withdrawn in November 2022. 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.

1.6. The new LP must be prepared in accordance with the National Planning Policy Framework (NPPF) and make clear the level of developer contributions that will be required to support the planned new sustainable development that will respond to local needs. The accompanying Planning Practice Guidance (PPG) sets out how to consider development viability as an important part of the plan-making process. There is a requirement to test the deliverability of Local Plans and assess the viability of sites and policies contained within them – at a proportionate and appropriate level. Ultimately, the development identified in the new LP should not be subject to such a scale of obligations and policy burdens that its ability to be developed viably is unduly affected. The Council has therefore commissioned this study to help understand the likely influence on viability of the emerging LP policy proposals and the potential viability of site types being considered for allocation.

1.7. Using a well-established approach consistent with PPG principles and informed by DSP's long experience of the process through to examination stages, further review and testing has now taken place towards building the picture on the viability of the LP proposals, and further informing its ongoing development. The methodology uses residual valuation which deducts variable development costs (as explored test levels where these are not fixed – including potential emerging LP policy positions) from the potential sales receipts in a range of circumstances, reflecting the local characteristics; as noted below.

1.8. Following the Regulation 18 Part One phase, this interim report summarises our relevant review scope at this stage, offers initial findings in regard to the emerging draft policy set as viewed to date by DSP – to support the Council's Regulation 18 Part Two consultation. The potential compromises or "trade-offs" to be considered (as is usually the case) relate to exploring a suitable balance overall between policy objectives (including on affordable housing need, carbon reduction, infrastructure funding etc.) whilst ensuring ongoing delivery and growth across the district – based on development as a whole being able to continue coming forward viably. The focus for now is on how the costs of supporting emerging policies are likely to influence the cumulative costs of development and overall viability, viewed at a high level; and therefore, the potential scope for these to be accommodated. This is underway alongside building up a basis for considering the scope for any additional requirements / infrastructure or a potential update / adjustment to the adopted CIL charging rates (or any similar Infrastructure Levy) in due course. All of this should be considered high-level and subject to adjustment at this stage.

1.9. As a general point, in any area typically there are some sites that are likely to have inherent viability issues, regardless of the level of affordable housing (AH) or other policy requirements. However, it is usually the AH expectations that are key and tend to be the most impacting for viability prospects amongst the various and typically growing policies scope that the LPA currently has influence over. They are typically the most expensive to support because their development cost is equivalent to that of the market sale homes and yet they support only around half the revenue level overall based on a mix of AH tenure (as a very broad indication). We reiterate that these are not factors relevant only to Sevenoaks, but commonly found throughout our wide experience of these assessments.

1.10. Please note that the information and provisional findings, such as are available for the interim reporting provided here, are subject to ongoing review and potential alteration pending further discussion with the Council and the further consultations etc. as the emerging LP progresses to further stages. The final stage of the viability assessment process will take place following the Regulation 18 Part Two consultation leading to the Regulation 19 consultation, building on this current stage assessment with a likely expanded typologies set reviewed together with likely more detailed assessment of selected specific sites – as can be considered further once the overall growth strategy is refined.

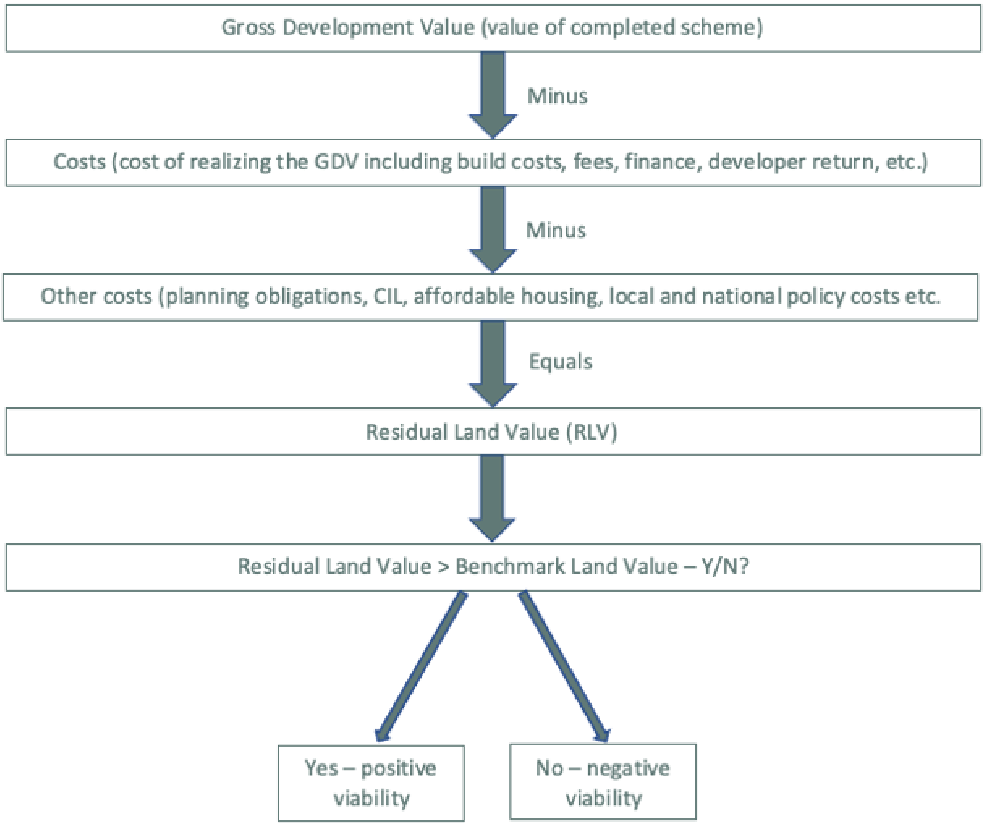
## 2. Assessment methodology

2.1. Residual valuation involves deducting the estimated costs of development including the developer profit from the estimates of completed scheme value (gross development value or 'GDV'). This calculation results in viewing the scope to support land value after allowing for all other costs. The appraisal output in each case is a 'residual land value' ('RLV') which varies as the potential policy costs and other variable inputs are adjusted across a wide range of appraisal trials (scenarios largely represented by development typologies, and further sensitivity tests).

2.2. Necessarily using assumptions and judgments throughout, the appraisal RLV outputs are then 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 as appropriate in various circumstances for an uplift (premium) over the EUV to suitably reflect an owner's release of land from its current use. This process informs the review of the degree to which policy costs can be supported alongside the typical development costs (including national standards) in various development circumstances – by varying scheme type, site type and potentially also location.

2.3. Figure 1 below (see following page) provides an illustration of the residual methodology.

*Figure 1: Outline of residual land valuation approach*[1]




*(DSP 2023)*

2.4. For greenfield land (GF), we assume 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 – principles as noted above and consistent with the PPG.

2.5. For PDL, at this stage we have assumed an overall BLVs range from £1.75m to approximately £5m per hectare reflecting a range of EUV+ based judgements also provisionally considered in the Sevenoaks context.

2.6. This is not to say that land value expectations in such scenarios would not fall beneath or go beyond these levels either – they could well do in a range of circumstances. The appendices to this report set out the current stage BLVs used in considering the strength of the RLV £/Ha results for each set of test scenarios (e.g. varied by PDL / GF relevance)

[1] *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.*

2.7. It is important to note that all RLV results indicate the receipts available to landowners after allowing, within the appraisals, for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels (BLVs or 'viability tests') represent a "raw material" view of land value, therefore, with all development costs falling to the prospective developer (usually the planning applicant / site purchaser).

2.8. Matters such as realistic site selection for the particular proposals, allied to realistic land owner expectations on site value, will continue to be vitally important. Site value needs to be assessed from the EUV basis and proportionate to realistic development scope and site constraints, ensuring that the available headroom for supporting necessary planning obligations (securing AH and other provision) is not overly squeezed beneath the levels that should be achieved.

2.9. The approach also benefits highly from long and wide experience of good practice from conducting similar assessments in a wide range of areas, 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.

## 3. Outline of work to date - assumptions summary / emerging policy analysis

3.1. At this stage, the assessment focus has been on residential development viability, upon which the emerging Local Plan policies have the most influence alongside the CIL and s106 contributions. The viability prospects for other development uses (e.g. non-residential) will be considered at an appropriate level to inform and support the main assessment as part of the next phase – moving towards Regulation 19 consultation and dependent on the role of other scheme types at the overall LP level.

3.2. By way of an overview, we have set out below the key project elements informing the current stage – review and assessment work to date. However, it is important to note that there remains the opportunity for updated review of appraisal assumptions following the Regulation 18 Part Two consultation stage. A number of these elements will remain under review pending further clarification and discussion with the Council, further developing / settling the reviewed matters and findings as part of the next assessment phase.

**Property sales values / market values analysis**

3.3. As part of the ongoing information review, one of the first key activities involved in carrying out this viability assessment was to conduct updated market values research analysis in the district for both new build and re-sale properties (the former being the most directly informative, with the latter used to allow data review of values patterns across the Plan area using larger available data samples).

3.4. This approach utilised a combination of web-based resources (including HM Land Registry and sites such as Rightmove etc.), alongside the initial stakeholder consultation undertaken so far as part of the Regulation 18 Part One assessment (liaison with and invitation to engage both general development industry representatives and affordable housing providers) amongst other sources. It must be acknowledged that in some instances, data samples are small (e.g. relating to a particular period or geography, particularly in small settlements) and this is not unusual. A market review report will sets this out and feeds into our assumptions.

3.5. As we are finding across a number of our study areas, although the housing market continued to show strong growth from 2020 to 2022, caused partially by a mismatch between demand and supply, the market appears to have reached its peak in early 2023. The current economic uncertainty stems from the fallout from the pandemic and the 'cost of living crisis' reflecting in high energy costs, increasing inflation (albeit now beginning to ease), rising interest rates (at the time of writing, the BoE base rate has increased to 5.25% although was not adjusted at latest review), changing government leadership and corresponding changes in financial policy - all resulting in greater levels of uncertainty at presents and over the short term.

3.6. This aligns with our experience of the current market - we have seen build costs more stable or rising only at more typical rates over the past few months (after an extended period of rapid inflation). This is influenced by reduced activity in housebuilding and more stable materials costs, although market reporting suggests also that rising labour costs have continued to drive increasing costs. However, Knight Frank[2] also note that whilst the situation has improved regarding build costs, this easing is tempered by other pressures such as mortgage availability/cost of borrowing; that said, Knight Frank's prediction is that the continuing imbalance between supply and demand will support property sales rates and pricing over the medium term, so that a price crash or similar does not appear likely.

3.7. Latest Savills market reporting in October 2023 indicates there has been "a pause in house price falls as we enter a period of greater stability"[3]. The Savills house price forecast indicates the market stabilising in 2024 leading to growth from 2025 with a +3% increase over the next 5yr period.

3.8. Overall, the general view of the housing market appears such that we are likely to see price falls continuing over the coming year or so, albeit not at such dramatic levels as perhaps previously expected by some. The general consensus within the industry appears to be that house price growth will not be seen in the short term, but that in the medium to long term the market is supported by the established 'fundamentals' – i.e. the continuing imbalance between supply and demand, as the population continues to increase with housebuilding falling well behind the rates needed to meet current and future demand.

3.9. Using our market and local values research exercise, our analysis indicates new build market housing sales Value Levels (VLs) across a range overall from VL1 @ £4,000/sq. m. to VL11 @ £7,000/sq. m. with a higher range applicable to older persons accommodation at £6,000 - £8,500/sq. m. We have used this for our testing as the most appropriate assumptions range representative of the variety in the district for this review purpose, overall. Within this range, we consider that key typical new build housing values are most closely represented by a narrower range of assumptions - approximately VL4 @ £4,750/sq. m. to VL8 @ £5,750/sq. m.

[2] Knight Frank – UK Residential Market Update – October 2023
[3] Savills – UK Housing Market Update – October 2023

3.10. For the purposes of this interim reporting and subject to ongoing review, we consider that VL5 at £5,000/sq. m. to VL6 at £5,250/sq. m. is a reasonable broad representation of the key part of the values range as a basis. These areas of the current stage results are considered to provide a suitable indicator for the purposes of initially reviewing and interpreting relative policy costs and impacts; leading to emerging findings on the variable strength of the value:cost relationships that are the basis of this assessment. As the process develops, usually it will be a case of relating this picture of values more to the intended site supply through an "overlaying" of our indications and findings on to that (as far as possible linking indicative values to particular circumstances when scenarios within the selected growth option are considered)

3.11. We consider that flatted development will be more likely to achieve sales values at higher than average levels, for example represented by VL7 (£5,500 sq. m) to VL9 (£6,000/sq. m). However, as normal in any district or locality, there will be cases where both higher and lower values can be seen within an area, between nearby sites and even within a site; an overview is needed at Plan making stage. Overall, we note a relatively wide range of new-build housing values likely to be relevant to the forthcoming supply in the district, but with typically higher values seen in more rural areas and at Sevenoaks town, with values generally lower in and around Swanley, Edenbridge and Ash for general housing development. However, in balance with this, we consider that potential additional viability pressures are more often likely to be associated with town centre and some other urban areas development, on PDL (re-use of brownfield sites) particularly – see further below.

3.12. As above, how the values levels and patterns (and therefore the strength of viability generally available) across the district relate to the planned site supply overall will be key to consider as the Plan develops keeping in mind there is no single policy response that covers all individual site variables. At this stage, we understand the Council is seeking to prioritise development on PDL focusing around the four main towns in the district (Sevenoaks, Swanley, Edenbridge and Westerham) with more moderate development levels within the service settlements and small-scale limited development in villages and hamlets. However, the level of housing need in the district at 712 homes per annum means that the release of some greenfield and Green Belt looks likely to be needed land to play an important role over the plan period.

**Stakeholder consultation**

3.13. Consistent with national guidance and established good practice, an initial consultation exercise with a wide range of locally active development industry stakeholders has been undertaken as part of the Regulation 18 Part One viability assessment (preliminary overview report).

3.14. This first phase included consultation with housebuilders, developers, planning and property agents and affordable housing providers. For the current stage assessment, we have not repeated this exercise, but a further key element of this process will take place at the main viability assessment stage as the Council settles the LP detail moving towards Regulation 19 consultation. This will invite further engagement and seek to refresh contact with relevant stakeholders, requesting updated views on the market together with any updated information - to help inform the next stage of assessment work, alongside the wider further information review. In addition, specific engagement will take place with parties with an interest in potential emerging strategic or other key site allocations and that are to be more specifically appraised as part of the next stages of this assessment.

**Emerging policies review**

3.15. We have reviewed the Council's potential emerging policy directions, to assess which policies would be likely to directly impact development viability in terms of additional development costs over and above the baseline development costs assumed for such a study (so, needing to be reflected alongside land and build costs, national standards, site works, contingencies, fees, finance, costs of sale and the like).

3.16. This assessment is based on monetising the effect of the relevant emerging policies in order to understand the likely impact of those on viability (with sensitivity testing carried out at varying levels in some cases) when considered cumulatively with the usual development costs and any national policy influences.

3.17. From the point of view of sustainable development and normal planning criteria, a wide range of other policies will have indirect implications and as such do not need to be specifically reflected in the development appraisal assumptions.

**Affordable Housing**

3.18. At this stage, we have tested the affordable housing proportions across the range 20% - 40% at 10% intervals. The affordable housing tenure mix is informed by the Targeted Review of Housing Needs (2022) which suggests the Council should seek a tenure split of 65% rented (made up of 58% social rent and 7% affordable rent), 25% First Homes and 10% Shared Ownership. In our experience where social rent is included, in reality there may be opportunities for grant funding which are not factored into the appraisal model.

3.19. Overall for the purposes of this stage of review, we have assumed the following values for the affordable housing tenure:-

- Social Rent – based on assuming 45% of market value (MV)
- Affordable Rent – based on assuming 55% MV
- Shared Ownership – based on 65% of MV
- First Homes – 70% MV based on 30% discount (subject to value cap of £250,000, after discount).

3.20. In line with the Government's introduction of First Homes, we have allowed for 25% of the overall total affordable housing to be of this tenure and then followed the above tenure split informed by the TRHN assessment for the remaining mix assumptions. We have also looked to ensure the assumptions reflect the requirements of the NPPF Paragraph 65 (requiring a minimum of 10% of all homes on major sites to be affordable home ownership – this being primarily First Homes). This is all necessarily on a 'best fit' basis, depending on the typology, dwelling mix and AH % appraised in a particular test scenario.

3.21. It is important to note that the potentially improved revenue that may be generated by First Homes compared to other tenures may be offset by the additional market related risk associated with this model; reflected by our assumed profit level for this element. Typically, we assume a return of 6% for affordable housing that is sold to an AH provider - Registered Provider (RP), reflecting the low level of risk associated with off-plan purchases and more of a contracting model. For market housing we assume 15% - 20% on GDV (market sales) reflecting the higher risk associated with developing and selling those properties as well as the PPG on plan making (likely assessment base being a mid-point 17.5% GDV reflecting, overall, development across varying market cycles). At this stage we are working on the basis that First Homes falls somewhere between the two in terms of its risk profile and therefore we assume a significantly higher than affordable housing level of developer profit at 12% GDV on that proportion of the AH.

3.22. Although it is still in its infancy (and certainly in terms of delivery of First Homes), we have undertaken a number of studies that include consideration of the impact of First Homes on viability. Results tend to indicate that at the minimum discount (30% from MV) there may be no or only a little improvement in viability compared with shared ownership/intermediate provision. That relativity will depend on the starting point tenure mix and local values, however. With higher discounts, which are on a plan-wide basis at either 40% or 50% MV as an alternative to the minimum 30%, the First Homes model appears generally to reduce viability compared to previous tenure mix positions. At 50% of market value, the First Homes sale revenue (receipt by the developer) is broadly similar to that provided by affordable rented homes, as an example of potential relative impact of First Homes compared to other tenures at this level of discount.

3.23. The housing mix required or sought by the Council may also have an influence here as the overall price cap on First Homes (£250,000 after discount, all areas outside London) may limit the income from this tenure or restrict the size of properties which can be brought forward as First Homes. This is a likely effect that we are beginning to see and will be an aspect to consider as part of both the local approach / policy development on First Homes and setting assumptions for the next phase of viability review and testing.

3.24. Therefore, we have conducted some initial analysis of the likely effect of the First Homes price cap locally, which demonstrates the likely relationships between the fixed First Homes discount levels and property type/size based on our values research, as set out in Figure 2 below. Within this the red shaded price levels indicate those scenarios which would fall outside (not be workable based upon) the various First Homes discount levels (noting again that the discount can be placed at 30%, 40% or 50% MV, subject local evidence, but cannot be placed at any other level or varied across the Plan area with the potential exception of areas covered by Neighbourhood Plans).

### *Figure 2: First Homes – Local property values and pricing/cap analysis*

Sevenoaks Council - First Homes Property Price Caps

| 100% Market Value | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unit Type | Size of unit (m²) | VL1 £4,000 | VL2 £4,250 | VL3 £4,500 | VL4 £4,750 | VL5 £5,000 | VL6 £5,250 | VL7 £5,500 | VL8 £5,750 | VL9 £6,000 | VL10 £6,500 | VL11 £7,000 |
| 1BF | 50 | £200,000 | £212,500 | £225,000 | £237,500 | £250,000 | £262,500 | £275,000 | £287,500 | £300,000 | £325,000 | £350,000 |
| 2BF | 67 | £244,000 | £259,250 | £274,500 | £289,750 | £305,000 | £320,250 | £335,500 | £350,750 | £366,000 | £396,500 | £427,000 |
| 2BH | 75 | £316,000 | £335,750 | £355,500 | £375,250 | £395,000 | £414,750 | £434,500 | £454,250 | £474,000 | £513,500 | £553,000 |
| 3BH | 93 | £372,000 | £395,250 | £418,500 | £441,750 | £465,000 | £488,250 | £511,500 | £534,750 | £558,000 | £604,500 | £651,000 |
| 4Bh | 106 | £520,000 | £552,500 | £585,000 | £617,500 | £650,000 | £682,500 | £715,000 | £747,500 | £780,000 | £845,000 | £910,000 |

| 30% Discount | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unit Type | Size of unit (m²) | VL1 £4,000 | VL2 £4,250 | VL3 £4,500 | VL4 £4,750 | VL5 £5,000 | VL6 £5,250 | VL7 £5,500 | VL8 £5,750 | VL9 £6,000 | VL10 £6,500 | VL11 £7,000 |
| 1BF | 50 | £140,000 | £148,750 | £157,500 | £166,250 | £175,000 | £183,750 | £192,500 | £201,250 | £210,000 | £227,500 | £245,000 |
| 2BF | 67 | £170,800 | £181,475 | £192,150 | £202,825 | £213,500 | £224,175 | £234,850 | £245,525 | £256,200 | £277,550 | £298,900 |
| 2BH | 75 | £221,200 | £235,025 | £248,850 | £262,675 | £276,500 | £290,325 | £304,150 | £317,975 | £331,800 | £359,450 | £387,100 |
| 3BH | 93 | £260,400 | £276,675 | £292,950 | £309,225 | £325,500 | £341,775 | £358,050 | £374,325 | £390,600 | £423,150 | £455,700 |
| 4BH | 106 | £364,000 | £386,750 | £409,500 | £432,250 | £455,000 | £477,750 | £500,500 | £523,250 | £546,000 | £591,500 | £637,000 |

| 40% Discount | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unit Type | Size of unit (m²) | VL1 £4,000 | VL2 £4,250 | VL3 £4,500 | VL4 £4,750 | VL5 £5,000 | VL6 £5,250 | VL7 £5,500 | VL8 £5,750 | VL9 £6,000 | VL10 £6,500 | VL11 £7,000 |
| 1BF | 50 | £120,000 | £127,500 | £135,000 | £142,500 | £150,000 | £157,500 | £165,000 | £172,500 | £180,000 | £195,000 | £210,000 |
| 2BF | 67 | £146,400 | £155,550 | £164,700 | £173,850 | £183,000 | £192,150 | £201,300 | £210,450 | £219,600 | £237,900 | £256,200 |
| 2BH | 75 | £189,600 | £201,450 | £213,300 | £225,150 | £237,000 | £248,850 | £260,700 | £272,550 | £284,400 | £308,100 | £331,800 |
| 3BH | 93 | £223,200 | £237,150 | £251,100 | £265,050 | £279,000 | £292,950 | £306,900 | £320,850 | £334,800 | £362,700 | £390,600 |
| 4BH | 106 | £312,000 | £331,500 | £351,000 | £370,500 | £390,000 | £409,500 | £429,000 | £448,500 | £468,000 | £507,000 | £546,000 |

| 50% Discount | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unit Type | Size of unit (m²) | VL1 £4,000 | VL2 £4,250 | VL3 £4,500 | VL4 £4,750 | VL5 £5,000 | VL6 £5,250 | VL7 £5,500 | VL8 £5,750 | VL9 £6,000 | VL10 £6,500 | VL11 £7,000 |
| 1BF | 50 | £100,000 | £106,250 | £112,500 | £118,750 | £125,000 | £131,250 | £137,500 | £143,750 | £150,000 | £162,500 | £175,000 |
| 2BF | 67 | £122,000 | £129,625 | £137,250 | £144,875 | £152,500 | £160,125 | £167,750 | £175,375 | £183,000 | £198,250 | £213,500 |
| 2BH | 75 | £158,000 | £167,875 | £177,750 | £187,625 | £197,500 | £207,375 | £217,250 | £227,125 | £237,000 | £256,750 | £276,500 |
| 3BH | 93 | £186,000 | £197,625 | £209,250 | £220,875 | £232,500 | £244,125 | £255,750 | £267,375 | £279,000 | £302,250 | £325,500 |
| 4BH | 106 | £260,000 | £276,250 | £292,500 | £308,750 | £325,000 | £341,250 | £357,500 | £373,750 | £390,000 | £422,500 | £455,000 |

*Red denotes property value above the £250,000 FH cap.*

| Discount required to achieve £250,000 cap | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unit Type | Size of unit (m²) | VL1 £4,000 | VL2 £4,250 | VL3 £4,500 | VL4 £4,750 | VL5 £5,000 | VL6 £5,250 | VL7 £5,500 | VL8 £5,750 | VL9 £6,000 | VL10 £6,500 | VL11 £7,000 |
| 1BF | 50 | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% |
| 2BF | 67 | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 31.7% | 36.9% | 41.5% |
| 2BH | 75 | 30.0% | 30.0% | 30.0% | 33.4% | 36.7% | 39.7% | 42.5% | 45.0% | 47.3% | 51.3% | 54.8% |
| 3BH | 93 | 32.8% | 36.7% | 40.3% | 43.4% | 46.2% | 48.8% | 51.1% | 53.2% | 55.2% | 58.6% | 61.6% |
| 4BH | 106 | 51.9% | 54.8% | 57.3% | 59.5% | 61.5% | 63.4% | 65.0% | 66.6% | 67.9% | 70.4% | 72.5% |

**DSP(2023)**

### Climate Change Response

3.25. The implementation of the (full) Future Homes Standard (FHS) in 2025 will require new homes to be "zero carbon ready" (i.e. no further retrofitting for energy efficiency will be required to achieve 'zero carbon' status, as the electricity grid continues to decarbonise). The Council's emerging policy aligns with current and future building regulations. However, we also note the policy references achieving Passivhaus certification which we understand goes beyond the requirements of the FHS 2025. On this basis, it is unclear exactly which standard the emerging policy requires and accordingly we recommend that the Council will need to further consider and clarify the policy approach as the LP progresses. Subject to further clarification, at this stage we have adopted a midpoint between the two standards referred to as a broad assumption - compromise position.

3.26. The first phase of implementing the full FHS (to achieve 31% carbon reduction in new homes) has now come into effect as of June 2022 (increased standard implemented through Building Regulations Part L (2021). However, as this standard will take time to filter through into build cost data (BCIS – Building Cost Information Service), we have assumed former Part L 2013 as the baseline position for this assessment. The additional costs (over base build) assumed as part of the interim testing approach have been informed by available evidence and our growing experience of considering varying sustainability standards. Appendix I sets out the assumptions detail, with these extra-over costs assumed in this assessment at +5.5% (flats) and +7% (houses) or a blended +6.75% assumption for mixed houses/flats scenarios (tested over BCIS median cost levels for the relevant categories i.e. types of new housing development).

3.27. If the Council's intention is to seek Passivhaus standards, we could expect the above cost indications to increase – subject to further clarification and DSP review/analysis (also using information provided through any specialist consultancy work for SDC) . As a general point and as widely stated in various evidence-base reports, costs to achieve enhanced sustainability standards are expected to decrease over time via advancements in construction technology, increased supply/production of materials and renewable technologies and further decarbonisation of the Grid.

**Parking Standards - Electric vehicle charging points (EVCP)**

3.28. Alongside the above climate change approach, we have made an allowance for EVCPs to be provided in accordance with revised Building Regulations. Based on the Government's final Impact Assessment2, a cost of £865/dwelling (houses) and £1,961/dwelling (flats), with 1x EVCP per dwelling has been assumed at this stage.

**Biodiversity Net Gain (BNG)**

3.29. We have also assumed an explicit additional cost allowance for BNG – assumed at 20%, beyond the minimum national 10% baseline requirement. The cost assumptions vary by type of site (PDL/greenfield) and geographic location, based on the data contained in the Natural England Biodiversity net gain and local nature recovery strategies Impact Assessment' (DEFRA, 2019) (specifically Tables 19 and 20, South East region) and Eftec report for DEFRA. We understand via wider development consultation that the above impact assessment assumed the cost of a biodiversity unit (BU) incorrectly at £12,000/BU and a more recent report by Eftec or DEFRA concluded a higher BU cost of £20,000/BU as appropriate. Therefore, we have assumed Scenario C of the Government's impact assessment as a worst case scenario and proxy for increased cost of BNG units as noted above.

3.30. To reflect the cost of moving from 10% to 20% BNG, we have assumed +19% as a further extra over cost increase. On this basis, we have applied an additional percentage uplift to the base build costs to reflect the cost of achieving the 20% minimum BNG requirements – at 2.86% (Greenfield) and 0.6% (PDL).

**Water Efficiency**

3.31. Consumption assumed as restricted to not more than 110 litres per person per day (lpppd), on the basis the Council can appropriately demonstrate that the district is within an area of water stress (as with all optional enhanced standards, the case for the need has to be established as well as the viability impact reviewed). The overall cost impact for this requirement (at this level compared with the current Building Reg.s baseline of 125 lpppd) is nominal however and now reflected within the overall development cost allowances (in summary, no additional explicit cost assumption required at 110 lpppd).

**Ashdown Forest Special Protection Area (SPA)**

3.32. We understand the 'zone of influence' locally covers a very small proportion of the Council's area and is not relevant to the overall emerging site supply for the Plan. On this basis we have not included any additional specific costs within the indicative policy/requirement costs as part of the current-stage appraisal assumptions.

**Accessibility and use of buildings**

3.33. Following the Housing Standards Review, optional enhanced accessibility provision is now incorporated into Part M of the Building Regulations. It is important to note that if a combination of both M4(2) and M4(3) standards are needed and set, both cannot be applied fully - they are mutually exclusive. Our assessment considers the following emerging policy scope:-

- M4(2) Accessible and adaptable dwellings – applied to major development only - on all units.
- M4(3) Wheelchair user dwellings – applied to schemes of 10+ units at 5% (proportion of all dwellings.

### Nationally Described Space Standard (NDSS)

3.34. As a base assumption, we assume a requirement for all housing to meet the minimum standards set out by (former) MHCLG. The dwelling size assumptions intended for use for viability testing are set out in this study in draft Appendix I and are consistent with the NDSS ranges.

### Self-build and custom build housing

3.35. On schemes of 100+ units emerging SDC policy requires 5% to be made available for sale as serviced self-build and custom build plots. DSP will consider this requirement in more detail as part of the next phase of testing although typically we expect the impact on viability to be relatively neutral again, overall. In our view, however, there may be the potential for practical challenges to be involved in integrating plots within general market housing schemes if applied in a rigid way. In practice, we find that many self-builders will look to satisfy their own specific aims through the market – finding either an individual plot, re-build opportunity or similar.

### Community Infrastructure Levy (CIL) and residual s.106 Contributions

3.36. At this stage, CIL has been allowed for at the current indexed charging rates (Residential Zones A and B) i.e at £185.62 and £111.37/sq. m. respectively. In addition to the cost of the CIL, we have assumed a residual s106 allowance of £3,000/dwelling (All dwellings) representing potential ad hoc s.106 contributions / works at this stage. This is in addition to applying the current CIL charging rates (as indexed) and to later applying expected trial testing across an expanded range of potential CIL (or similar levy) test levels. This is essentially a contingency approach that we have established as good practice and represents the potential that there may often be other typically low-level site-specific S106 / S278 mitigation costs on at least some sites, in addition to the CIL. Emerging potential key / strategic site allocations are expected to be tested using a more specific approach of applying estimated development and infrastructure costs as part of the next assessment phase.

### Open space / Green Infrastructure

3.37. The provision of open space (reflecting both land take and maintenance cost contributions) where relevant to the acceptability of development also needs to be allowed for within the appraisal modelling. For the purposes of the current stage sample testing, we have assumed a 15% - 30% uplift to site area depending on scheme size. At this stage, we have also assumed maintenance contributions to be funded via the CIL or assumed s.106 contingency pending further detail.

**High-level testing approach**

3.38. The current stage testing focused on 9 no. residential typologies representing developments of 6 to 150 dwellings comprising schemes of houses/flats/mixed including retirement/sheltered scenarios, assuming both greenfield and PDL site types in addition to sample strategic-scale typologies of 500 and 2,500 new homes.

3.39. These typologies were selected to be reasonably representative of the overall range of schemes considered likely, at this stage, to come forward during the emerging plan period and reflective of future housing supply characteristics. This approach enables a suitable broad review of the potential effects of the emerging policy positions and requirements. The next stage assessment work may need to further consider or test a wider or refined set of typologies alongside the more bespoke testing of key strategic/specific sites once more detail is available and the overall approach to growth settled.

3.40. The 'Assumptions Summary' contained in current stage draft Appendix I to this report sets out in detail the range of the development typologies and associated costs assumptions being made (and kept under review as appropriate for next stages) as part of this assessment. These assumptions are based on a mixture of available evidence provided by the Council including key documents, established sources (such as BCIS) and our own experience of similar assessments.

3.41. The appraisal testing results are set out in the draft Appendix II accompanying this interim report. The results are displayed on an RLV (£) and RLV (£/ha) basis for each tested site typology. The results tables show the main variables and combination of those under review in each scenario. These are the 11 no. tested housing sale value levels (VLs), the CIL zones and hence indexed rates charging applied and the range of affordable housing (AH) proportions tested from 20% to 40%; with the bulk of the appraisal of schemes >10 dwellings focusing on 30% and 40% AH tests.

3.42. The RLV £/ha results are then compared against the above range of BLVs (see 2.4 – 2.5). This uses colour shading applied to the results to help highlight trends and relative outcomes between greenfield and PDL representative BLVs. It is important to note that the formatting using this coloured shading is not intended to depict any strict cut-offs.

3.43. The results should be considered in the context of the cumulative impact of policy and infrastructure costs on development. Such studies always involve elements of judgement and reliance is not placed on results that are at the margins of viability.

## 4. Key Findings Analysis Summary

4.1. The high-level viability testing conducted for the current assessment stage aims to provide the Council with an interim stage overview of the likely viability prospects associated with key policy areas and the mix of developments that may come forward within the emerging plan approach overall. This is intended to inform the next stage full viability assessment to be undertaken for Regulation 19 stage – planned for 2024. Our current findings are outlined below.

**Affordable Housing**

4.2. Our results analysis as displayed in Appendix II, indicates a positive viability scenario for smaller-scale greenfield sites (i.e. non-strategic without large on-site infrastructure requirements) with the ability to support 40% affordable housing (AH) when combined with the emerging policy requirements including CIL at current indexed rates. However, PDL based scenarios suggest 40% AH to be challenging in most circumstances. This is mainly due to typically higher existing use values (EUVs) of PDL sites (represented by higher BLVs) which often impact in combination with potentially higher development costs.

4.3. On this basis, our view is that it will be appropriate for SDC to consider a differential approach to affordable housing policy – potentially with the requirement on PDL reduced to perhaps not more than 30% AH overall, reflecting the characteristics in this context. It is important to note that in some cases this could nevertheless still be challenging to achieve, particularly in urban area flatted scenarios. The Council will likely need to consider the relevance of PDL and particularly these types of sites to the plan overall – as part of how the selected growth strategy come together. As a general finding, PDL sites are considered likely to frequently support less AH scope than developments on GF. A further aspect for consideration is that there will always be some sites that are inherently unviable and/or circumstances where there may be viability challenges regardless of the exact AH proportion adopted – as was noted above.

4.4. On sites between 6-9 dwellings in the designated rural area (only) and beneath the major development threshold, a further differential is likely to warrant consideration as well, reflecting the characteristics of this scale of development. On this basis the use of a financial contribution equivalent to (in lieu of) no more than 20% AH could be an element carried forward for further review, also bearing in mind experience of the practicalities in such cases.

4.5. At this stage of the assessment, we have also reviewed the viability prospects of two strategic-scale sites represented by larger development typologies that may come forward over the plan period. The larger site typology of 2,500 may be considered provisionally as broadly aligning with the Council's Option 2 for growth. Sites of this scale typically come with greater levels of infrastructure requirements (e.g. primary and/or secondary schools, new highway junctions/works, mixed-use elements / local centres etc.) and will require more specific viability testing at the next assessment stage once more information is available. However, based on the high-level testing to date, we consider affordable housing in the region of 30-40% looks likely to be supportable alongside the other emerging policies at this stage.

4.6. Building on this further, the results indicate that if limited additional infrastructure is required, a greater proportion of AH at 40% may well be viable more consistently.

4.7. Alongside the above, it is also important to note that the market picture is likely to have changed by the point sales on such a site come forward, let alone progressed over the long development period (estimated at approximately 15years overall) and, in these circumstances, it is not appropriate to only consider the short term / early years ongoing potential downside influence of the current market / economic backdrop – a longer-term view needs to be taken.

4.8. The above findings are based on tenure mix assumptions outlined at 3.19 above informed by the Targeted Review of Housing Needs (2022). Linked to this, we have assumed the First Homes element at the minimum discount level – 30% MV. An increase in that level of discount would have a negative impact on viability by reducing the amount of revenue within the appraisal.

4.9. The Council's emerging policy also indicates a high proportion of social rent to be required in combination with a small element of affordable rent. As a general point on tenure for now, this as well as the AH quantum (%) influence viability significantly. We note with the increased revenue generated by affordable rent; it may be that in some circumstances a flexible approach to affordable housing tenure could be relevant within any needed rebalancing scheme viability – with such effects potentially of increased relevance in the lower viability scenarios - including on PDL.

**Retirement living/sheltered housing and Integrated Retirement Communities (IRC) including extra care / assisted living and retirement villages**

4.10. As set out in Appendix I, we have also conducted appraisal testing using typologies reflecting older persons housing with bespoke scheme elements having the effect of increasing costs, particularly for extra care/IRC. IRC is a relatively newly emerging description for retirement development providing a range of housing options for older people from extra care through to 'premium' / luxury retirement villages. Depending on the type of IRC, these can come with tailored support services including usually enhanced (sometimes extensive) communal facilities (e.g. restaurant/cafe, leisure facilities (gym, swimming pool), communal lounge, hairdressers, gardens, activity rooms etc.) alongside 24-hour onsite staff and optional care or domiciliary services.

4.11. In our experience, these are high-value forms of development that tend to come forward in urban locations on PDL, close to town centres, although we are aware of some greenfield based schemes. As with PDL based schemes considered above, the results need to be viewed within the context of the sites upon which these types of schemes will be located. We have seen these schemes come forward on a range of typical PDL sites including former police stations, community uses, office blocks, existing residential and as with other PDL schemes, which may come with other characteristics influencing viability scope, including varying site values (varying relevant BLV levels).These are not exclusive issues to older persons accommodation, however, but factors potentially relevant to all PDL schemes.

4.12. The retirement living typology results indicate broadly similar viability prospects to other forms of PDL development. The base-level extra care typology (IRC with some enhanced communal space/facilities but not at the premium' level) results appear to support reduced viability compared with retirement living. Although not yet fully tested (forming part of the next assessment phase), a 'premium' level IRC scenario is likely to attract significantly higher sales values in comparison to other forms of older persons accommodation. This also comes with greater cost however and, at this stage, we consider there may be viability challenges in some circumstances depending on site specifics.

4.13. The testing to date, alongside our wider experience, shows there are varying types and levels of older persons accommodation with bespoke characteristics. Schemes are specific but all provide a housing offer that is part of the wide market spectrum. Effective policy differentiations, if potentially relevant on viability grounds, appear likely to be challenging to consider and implement in our view. Overall, at this stage and pending further review, there appears to not be a very clear reason to differentiate these forms of development compared with other forms of housing development. These types of development appear no more likely to experience viability pressures than for example some other forms of flatted development on PDL sites. On this basis, at this stage (pending further review) we consider that any AH policy differential considered, as above, for PDL sites or some of those could apply equally effectively as a headline in such specialist housing instances. As a general point, because of the variety of sites and schemes (of all types) and the variables involved, in framing policies it may be appropriate to consider the potential role of viability in decision taking.

**Community Infrastructure Levy**

4.14. As noted above, these findings are based on the current indexed CIL charging rates which on the whole we consider likely to remain appropriate in combination with the nature of the emerging policies. Wider CIL testing would take place as far as appropriate as part of the Regulation 19 stage assessment in relation to any suggested adjustments for SDC to consider and potentially including the approach to larger / strategic-scale sites providing significant direct infrastructure.

**Other policy requirements**

4.15. Although affordable housing has the greatest impact overall, other policies play a key part by contributing in varying measures to the cumulative viability impact.

4.16. We understand responding to the climate emerging is one of the Council's key priorities and therefore it is important the scope of the policy requirements is clear. At present, as we have noted, the emerging policy detail refers to both Future Homes Standard 2025 (looking to align with Building Regulations) and Passivhaus certification. These approaches to climate change response come with differing standards and therefore associated cost implications. We have offered our view that SDC will need to clarify its preferred policy approach for the next assessment stage, potentially further influencing the overall mix of policy requirements that can be viably accommodated on the whole. However, in our experience the extra-over cost difference between implementing FHS 2025 and the Passivhaus standard is not likely to be significant enough to move a scheme from negative to positive viability or vice versa. This may be considered, along with the expectation that the costs of achieving such enhanced standards are likely to reduce over time.

4.17. Another emerging dimension to zero carbon construction (requiring further DSP consideration/research) relates to the potentially positive impact on sales values. Emerging and so far, mainly anecdotal only indications suggest there may be a level of uplift or premium attached to zero carbon homes because of lower running costs, especially in an economic environment where the costs for gas and electricity remain high. However, in a challenging housing market it is likely to be difficult to weigh up such factors with confidence. Over time, this will become the norm too.

4.18. The requirement for some M4(3) 'wheelchair user dwelling' (provisionally targeted at 5% here) is also becoming a relatively typical assumption alongside the now fixed requirement for all new dwellings to meet Building Regulations M4(2) as part of Building Regulations. In our experience, although M4(3) standards come with greater cost implications, it is only with higher levels of this where viability begins to be squeezed when viewed cumulatively with all other policy requirements applied fully. In addition, the Council will need to demonstrate the level of need that exists in the district.

4.19. With the decline in biodiversity and habitat loss across the UK, the Government has included a mandatory requirement for 10% BNG in the Environment Act 2021 which is now due to come into effect in January 2024[4]. A report produced by the Kent Nature Partnership[5] concluded a higher 20% BNG target should be included in Local Plans due to the ecological crisis and the specific pressures in Kent. On this basis, our current stage assessment assumes a 20% BNG requirement. Based on our wider experience and SDC specific analysis, we consider the cost of moving from 10% to 20% BNG to be minimal (approximately 0.10% – 0.46% on base build cost) and would not, in isolation, cause a scheme to move from a viable to non-viable position.

**Additional commentary**

4.20. Overall, the assessment process to date and ongoing dialogue with the Council seeks to inform the development of the emerging plan, reflecting national policy, guidance and established good practice (alongside the building wider evidence base).

4.21. At this still quite early stage of viability assessment, we consider that the emerging Local Plan policies and approach have reasonable prospects of being deliverable, that is not likely to unduly impact development coming forward in the district. As has been noted, appropriately these indications are subject to further review, including clarification of infrastructure requirements (and especially those associated with option 2 - potential strategic-scale, standalone settlement).

4.22. In addition, although subject to further review, on the whole it looks likely that the current CIL charging schedule could continue to operate within appropriate parameters in viability terms alongside the new plan approach (until such a time any new national infrastructure levy (IL) or other basis replaces the CIL). There may, however, be some aspects of this to consider further in due course, including in respect of the relationship between CIL and specific infrastructure provision / s.106 on strategic sites.

[4] April 2024 for small sites.
[5] Kent Nature Partnership - Justification for Biodiversity Net Gain target of 20% in Kent (2020)

4.23. The work carried out to date and ongoing will be subject to continued checking and revision, following any clarifications and further information provided by the Council or gathered from our open information review as we progress now towards the next assessment stage. The next stage assessment will also consider as appropriate the viability of non-residential development.

# Notes and Limitations

I. The purpose of the assessment reported in this document (as conducted October 2023) has been to inform the emerging LP approach and policies anticipated to shortly reach Regulation 18 consultation stage.

II. Gathering up and reflecting on the testing of typologies over the main elements of assessment over the above period (work to date), this report sets out the information considered and scope of review as part of the Council's development of its emerging LP proposals from a viability perspective - whilst also taking into account national policies and initiatives that may have an impact on development viability.

III. This has been a desk-top exercise based on information provided by SDC supplemented with information gathered by and assumptions made by DSP, once again as appropriate in the context of LP development ('plan making').

IV. This review has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan viability, affordable housing and CIL economic viability as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment many assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.

V. It should be noted that every scheme is different, and no review of this nature can reflect all the variances seen in site specific cases. Accordingly, this assessment (as with similar studies of its type) is not intended to directly prescribe assumptions. Assumptions applied for our test scenarios are unlikely to be appropriate for all developments. A degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing and supporting the Council's approach towards a robust and viable LP.

VI. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indications generated by the development appraisals for this strategic purpose will not necessarily reflect site specific circumstances. Nevertheless, the assumptions used within this study inform and then reflect the policy requirements and strategy of the Council and therefore take into account the cumulative cost effects of policies.

VII. The research, review work and reporting for this assessment has been assembled at a time when there have remained remain economic uncertainties associated with post-Brexit, the after effects of the COVID-19 (Coronavirus) pandemic situation, more latterly the war in Ukraine, and challenging economic circumstances in general; with the latter coming to more the fore as this assessment has progressed to its current stage Interim Report.

VIII. This may run through into many potential areas affecting development viability or deliverability, particularly in the short term. However, there could be a range of influences and effects, not necessarily all negative in their impact on viability. It is of course only possible to work with available information at the point of carrying out the assessment. At this stage it appears that it will be for Local Authorities and others to consider how this picture may change – monitor it as best possible and consider any necessary updating of the evidence and local response in due course.

IX. This is consistent with the approach that typically is taken already when either a significant amount of time passes, or other circumstances change during the period of Plan preparation/review and potentially pending or during examination. In the meantime, this work contains information on the impact of varied assumptions applied within a wide range of sensitivity tests. Run in this way, and through regular dialogue with the Council while in progress, this has helped and continues to inform the Council's consideration of development viability in the wider plan delivery context.

X. 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.

XI. To the extent that the document is based on information supplied by others, DSP accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.

XII. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies will be applied from case to case.

XIII. DSP conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have not undertaken and are not undertaking other work in the Council's area at the time of this project, but have undertaken strategic viability assessment work previously on behalf of the Council and we work for other authorities in the region.

XIV. 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.

XV. In the preparation of this assessment DSP has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

**Interim Report for SDC ends**
**October 2023**