



East Lindsey

DISTRICT COUNCIL

REPORT TO:	Planning Policy Committee
DATE:	15 th April 2021
SUBJECT:	Economic Viability Assessment
KEY DECISION:	N/A
PORTFOLIO HOLDER:	Councillor Tom Ashton
REPORT AUTHOR:	Simon Milson
WARD(S) AFFECTED:	All
EXEMPT REPORT?	No

SUMMARY

The Council commissioned Opinion Research Services (ORS) to carry out a new Economic Viability Assessment (EVA) as part of the evidence base for the review of the Local Plan. The current EVA was created in 2015 making it now 6 years out of date. The new EVA followed a similar methodology in assessing the viability of developers providing affordable housing and other contributions for housing developments.

The study defines 3 different value areas, based on evidence gathered on property sale prices. These areas are: High Value, Inland and Coastal.

The findings are complex; however in summary:

High Value Areas

Smaller sites (10 units to 120 units) could deliver 40% and 50% affordable housing.

Larger sites (200 units to 1000 units) could deliver up to 50% affordable housing for sites of 200 units. For 350 units, 40% affordable housing is viable but only marginally; however 30% is viable. Above this size of site the viability for affordable housing is marginal at low % of 20% (1000 units) and 25% (600 units).

Village sites (up to 75 units) could deliver up to 50% affordable housing on all size of sites up to 75 units.

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Inland Value Areas

Smaller sites (10 units to 120 units) could provide 25% to 30% affordable housing in all but one scenario (120 units @ 30% was unviable). The Study notes that higher densities improve viability.

Larger sites (200 units to 1000 units) very limited viability even at lower densities and %. 200 units provides the only real viability at 30 DPH or 20DPH for a site of bungalows, both of which are viable at 20% affordable housing.

Village sites (up to 75 units) even at 25% affordable housing there is no viability except on the larger sites of 75 units, where the economies of scale come into play.

Coastal Value Areas

The results show that viability for all site sizes, with one exception, is negative even at zero % affordable housing contribution. The one exception is for a site of 200 bungalows, which does give a marginal positive viability.

Affordable Housing Threshold

The report suggests that the trigger for a site to provide affordable housing could be reduced from 15 units down to 10 units without significantly affecting viability.

RECOMMENDATIONS

That the Economic Viability Assessment be noted and used as part of the evidence base for the review of the East Lindsey Local Plan.

REASONS FOR RECOMMENDATIONS

The new Economic Viability Assessment represents the most up to date assessment of the viability of developments to provide contributions to affordable housing and other impacts such as health, education, transport infrastructure.

OTHER OPTIONS CONSIDERED

Reject the findings of the Economic Viability Assessment and continue to use the existing iteration as the Council's evidence base. However, due to the age of the current EVA it is likely to be challenged when the reviewed Local Plan is submitted to the Inspectorate for examination. This could result in the Plan being found unsound.

REPORT

1.0 INTRODUCTION

1.1 The Council commissioned Opinion Research Services (ORS) to carry out a new Economic Viability Assessment (EVA) as part of the evidence base for the review of the Local Plan. The current EVA is now coming on 6 years old and will be at least 7 years old by the time it is

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submitted with the reviewed Local Plan. It is critical that the review is based on the most up-to-date evidence available to ensure that the Plan is found sound.

1.2 The background policy is set out in the National Planning Policy Framework:

*“Strategic policy-making authorities should have a clear understanding of the land available in their area through the preparation of a strategic housing land availability assessment. From this, planning policies should identify a sufficient supply and mix of sites, taking into account their availability, suitability **and likely economic viability.**”* [Highlighting added].
(para 67 NPPF 2019)

1.3 The EVA must also look at the viability of providing infrastructure contributions to mitigate the impacts of a development. This includes health and education contributions, as well as other possible impacts such as transport, green and digital infrastructure.

1.4 The Strategic Housing Market Assessment identified a potentially high level of unmet affordable housing need in the district (492 per annum) however when this was refined further the final affordable need figure is 4,421 or 221 per annum.

2.0 BACKGROUND

2.1 The report is split into 4 main chapters:

- Introduction
- Viability testing – approach & assumptions
- Residential Viability Analysis
- Residential Viability Analysis – Conclusions & Implications

2.2 Introduction

2.3 The Introduction sets out the reasons as to why an EVA is needed, along with the policy background that supports this. The NPPF and the PPGN provide policy and guidance on what an EVA should cover and how it forms part of the overall Local Plan.

2.4 The introduction includes the following extract from the NPPF, which sets out that Plans need be clear in what contributions a developer will be expected to pay for a development. The final sentence brings about the need to carry out an assessment, such as this EVA, to ensure such contributions are realistic.

“Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.” Para 34.

2.5 The introduction confirms that the latest guidance in the PPG has been followed, which was last updated September 2019 in relation to viability and the Community Infrastructure Levy.

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- 2.6** Following on from this the introduction, in section 1.10, begins to introduce the different variables that need to be taken into account when looking at the cost of building a particular development. This includes: build costs, abnormal costs (e.g. treatment of contaminated sites), site-specific infrastructure cost and professional, sales, promotional fees. These costs are set out in the PPG.
- 2.7** Section 1.11 then sets out that a base land value should be defined on the basis of the existing land use, plus a reasonable incentive for the landowner. It goes on to set out that a developer return should be 15-20% of gross development value, although where affordable housing is provided a lower figure is more appropriate. Sections 1.13 to 1.21 set out further recognised standards and guidance on viability testing that has been followed in creating the EVA.
- 2.8** The Introduction in section 1.22 acknowledges that the Planning White Paper “Planning for the Future” could have implications for the future, including the potential for a set of national standard rates to cover infrastructure provision and affordable housing. In addition to the White Paper, of particular importance are consultations on the Future Homes Standards (20-31% reduction in carbon for new buildings), Environment Bill (requirement for developments to provide biodiversity net gain) and Electric Vehicle Charging. The brief for the EVA required testing to be undertaken that built in the costs of these additional elements as well to give a better indication of how viability might be affected in the future.
- 2.9** The introduction finishes by setting out the Local context to the EVA (section 1.24 onwards). It is a good opportunity to note here that the Strategic Policy 7 in the East Lindsey Local Plan sets out the Council’s current requirement for affordable housing provision:

“The Council will support the delivery of affordable housing in the towns and large villages across the District. In the Medium and High Value Areas, on sites of 15 or more houses the Council will seek a 30% developer contribution towards the provision of affordable housing. This will rise to 40% in the Very High Value area (Woodhall Spa parish) but there will be no requirement in the Coastal Flood Hazard zone”.

2.10 Viability Testing – Approach & Assumptions

- 2.11** The first section (2.1) sets out that the consultants have adopted the residual value approach to working out how much should be paid for any given piece of land. This is an industry standard method and is set out in the PPG. In simplistic terms it works by taking the value of the fully completed development (i.e. if the developer sold every single plot at market value) and deducting the total development costs (including build costs, S106 contributions, and the developer profit of 15-20%). Whatever is left is effectively what the land is worth.
- 2.12** Section 2.2 goes on to set out that the assumptions on development costs using industry benchmarks has been supplemented by knowledge gained from local developers. Workshops and individual interviews were held with Local Developers to help understand any local constraints that affected the development costs and to test out the assumptions.

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2.13 Sections 2.3 to 2.5 set out how the case studies were selected for the testing. The table in 2.4 shows the range of site sizes selected, including small sites of 9-10 dwellings up to large strategic sites of 600 and 1000 dwellings. Care and exception sites were also tested. The dwellings per hectare figures (DPH) were arrived at by using the Local Plan figures and also assessing the density that has actually been delivered on recently completed sites.

2.14 Section 2.6 identifies the different value areas in East Lindsey. This is based on house price data that is used to determine the possible re-sale value of development in different areas. Three main areas are identified and shown in figure 1 below. There are high-value areas where house prices are the highest and therefore development has the potential to provide higher contributions. The Coastal area has the lowest house prices with the Inland area sitting in between.

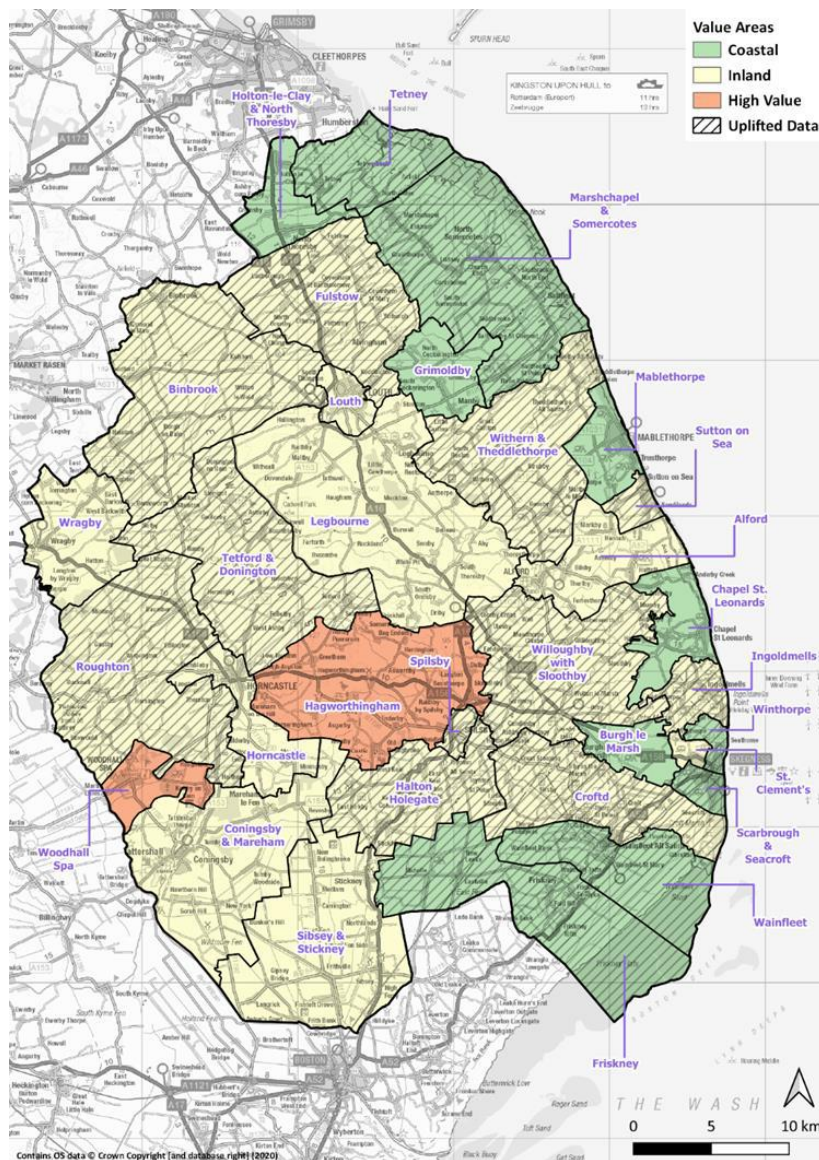


Figure 1

2.15 Sections 2.7 - 2.13 look at the assumptions used in the testing of viability at the sites. The value of land was discussed at the workshops and in subsequent interviews with developers. The consultants standardised figures are based on 10-20 times agricultural value giving £70k to £140k per acre (£173k to £346k per hectare). However based on the discussions the upper

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value was considered too high. The consultants therefore used a lower multiple of 12.5 times agricultural value to reflect the situation in East Lindsey (section 2.8).

2.16 Section 2.15 sets out the range of affordable housing scenarios that are tested. The current Local Plan varies from 0% in the Coastal Zone to 40% in the high value area (Woodhall Spa), with 30% everywhere else. The testing for this study was carried out between the ranges of 0% to 50% to try and cover all possible options.

2.17 Sections 2.18 to 2.21 explain how the different affordable and market housing type mixes have been arrived at. This includes using information from housing associations, the development industry, past delivery patterns, and the findings of the Strategic Housing Market Assessment. Rent levels and affordable housing costs were verified through the workshops and interviews with developers. An estimate of the impact of the “First Homes” scheme has also been included, although full details of this scheme were still unclear at the time of writing the report.

2.18 Section 2.26 covers Section 106 and S278 (Highways Act) payments. There is no CIL in place in East Lindsey. The assumptions are based on industry standards and discussions with infrastructure providers, including County Council. For S106 and S278 payments on sites up to 250 dwellings a rate of £3,500 per dwelling has been used, but with sensitivity testing up to £6000 per dwelling. For sites larger than 250 dwellings a figure of £10,000 per dwelling is used to allow for the extra infrastructure costs on large sites. Flood resilience costs of £11,870 per dwelling have been used in the Coastal Zone.

2.19 Section 2.27 explains how environmental sensitivities have been tested. The key sensitivity is the potential requirement to reduce carbon on new properties by up to 31%. However given the unknown quantities around this and whether it will affect house prices, the study does not factor this into the overall house prices used for the testing.

2.20 Residential Viability Analysis

2.21 As mentioned previously various case studies were used for the viability testing. The table in figures 2 sets these out. The findings are summarised in an area by area basis (High Value, Inland and Coastal). It should be noted that the current threshold that triggers the requirement for affordable housing is 15 dwellings and above.

2.22 The three value areas are assessed in the report and are summarised in the sections below. It should be noted that these only provide a snapshot of the findings. The tables containing all

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of the data for the results are in appendix 2 and 3 of the full study report (attached to this report in appendix 1).

Dwellings	Type	Net densities tested
9	Residential	19 / 25 dph
10	Residential	19 / 25 dph
15	Residential	19 / 25 / 30 / 35 dph
35	Residential	19 / 25 / 30 / 35 dph
75	Residential	19 / 25 / 30 dph
120	Residential	25 / 30 dph
200	Residential	25 / 30 dph
200	Residential – bungalows only	20 dph
350	Residential	25 / 30 / 35 dph
600	Residential	25 / 30 / 35 dph
1,000	Residential	25 / 30 dph
75	Extra care apartments	100 dph
75	Sheltered apartments	100 dph
7	Rural Exceptions Site	n/a

Figure 2

2.23 High Value areas

2.24 The graph in figure 3 shows that all house types in the small-medium sites (9 units up to 120 units) show viability for both 30% affordable housing and 50% affordable housing at all 3 levels of density (25 DPH, 30 DPH and 35 DPH).

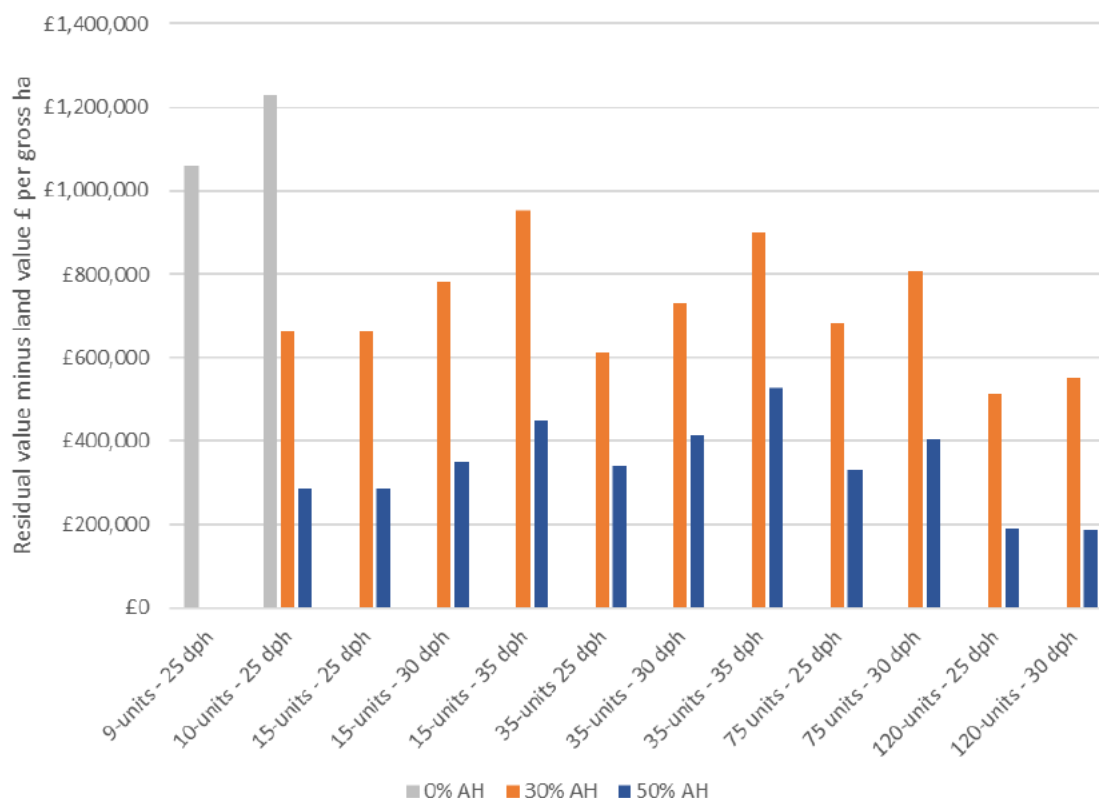


Figure 3

2.25 The graph in figure 4 shows that for larger sites (200 upwards) the 200 unit sites are still viable. However for sites 350 and upwards the viability reduces rapidly. Sites with 350 units

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was marginal at 50% but could deliver 40% and 30%. 600 units could deliver 25% and 1000 units 20%, but it can be seen that the residual value of the land would be very low in these cases so viability is only marginal.

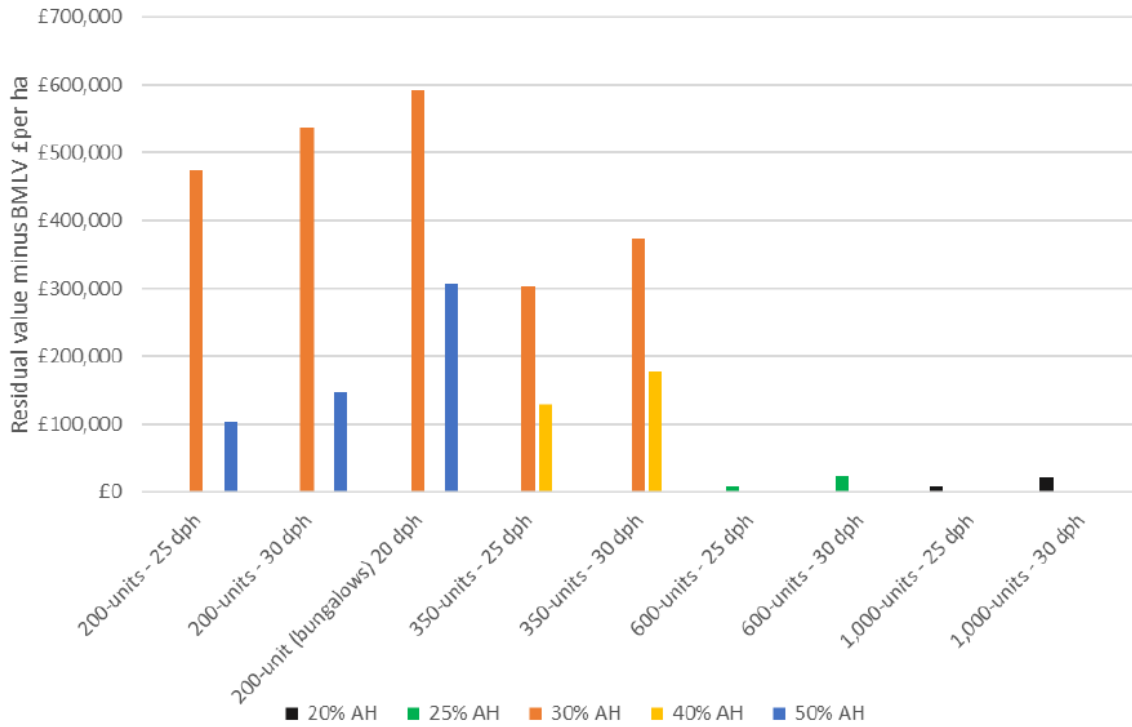


Figure 4

2.26 The graph in figure 5 shows the results in village studies for site sizes ranging from 10 units to 75 units. This shows that all size sites are viable up to 50% affordable housing based on 19 DPH. The study does note that schemes become even more viable in villages as the density increases.

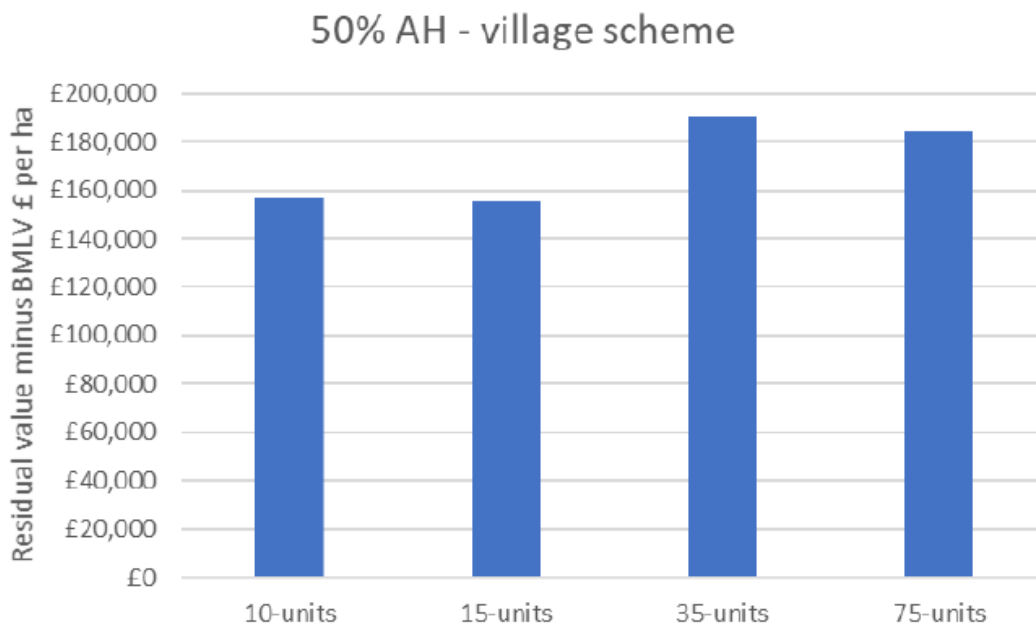


Figure 5

2.27 Inland Value Areas

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2.28 The first chart in this section (figure 6) shows the small-medium case studies (9 units to 120 units) for the Inland Area value area. This shows that all of the case studies provide viable results for providing 25% or 30% affordable housing, albeit the results for some site sites have a low residual land value at 30%. The exception is 120 units where it can be seen that a negative viability is shown for 30% where the site density is only 25 DPH.

2.29 The report notes that the current threshold triggering affordable housing is 15 dwellings, however sites with 10 units show no less viability and in fact viability is potentially slightly higher for 10 unit schemes. The report also notes that viability improves with density, with 30 DPH and 35 DPH giving higher viability.

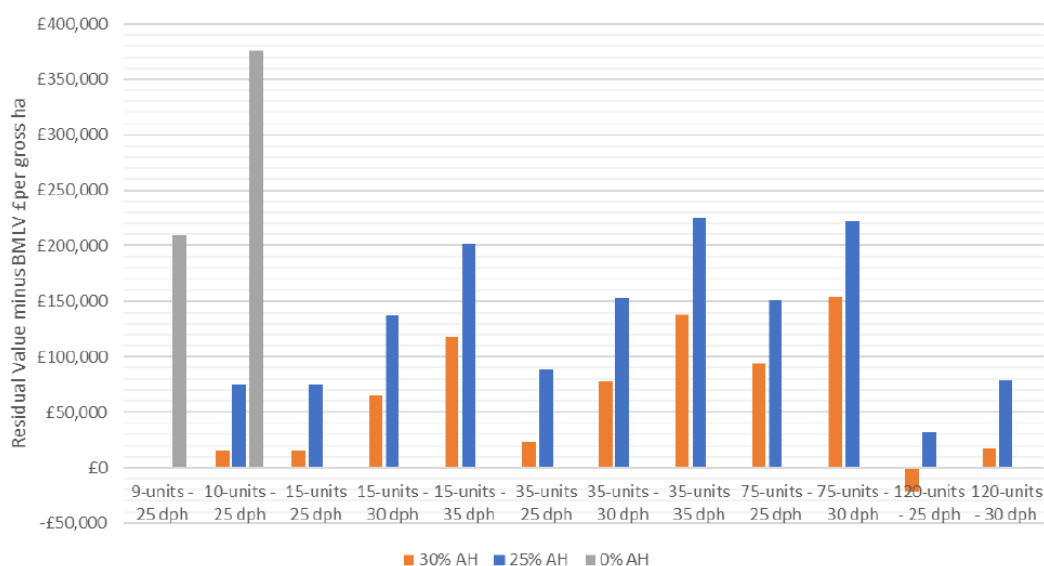
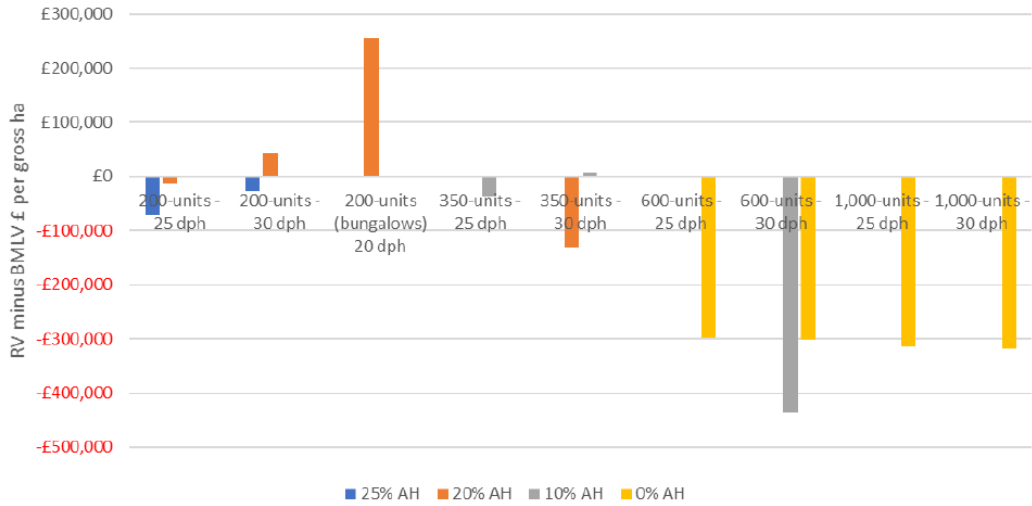


Figure 6

2.30 The next results in figure 7 look at the larger sites in the Inland value area (sites of 200 units up to 1000 units). These sites require increasingly higher levels of infrastructure to be provided and therefore need to generate higher revenues to give a viable result. It can be seen that only the 200 unit site gives significant viability at 30 DPH and 20 DPH for bungalows only. The 350 unit site is technically viable at 10% affordable housing but this is very marginal. The larger sites (600 and 1000) units are not shown to be viable even without any affordable units.

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2.31

Figure 7

2.32 The graph in figure 8 looks at villages in the Inland Area. As before the density used is 19 DPH to reflect a village location. It can be seen that viability is significantly lower in the Inland Area than the High Value Area. Even at 25% Affordable Housing the only sites that are viable are 75 units and above. The report states that this is due to the economies of scale at that size of site. It also notes that again viability does increase at higher densities.

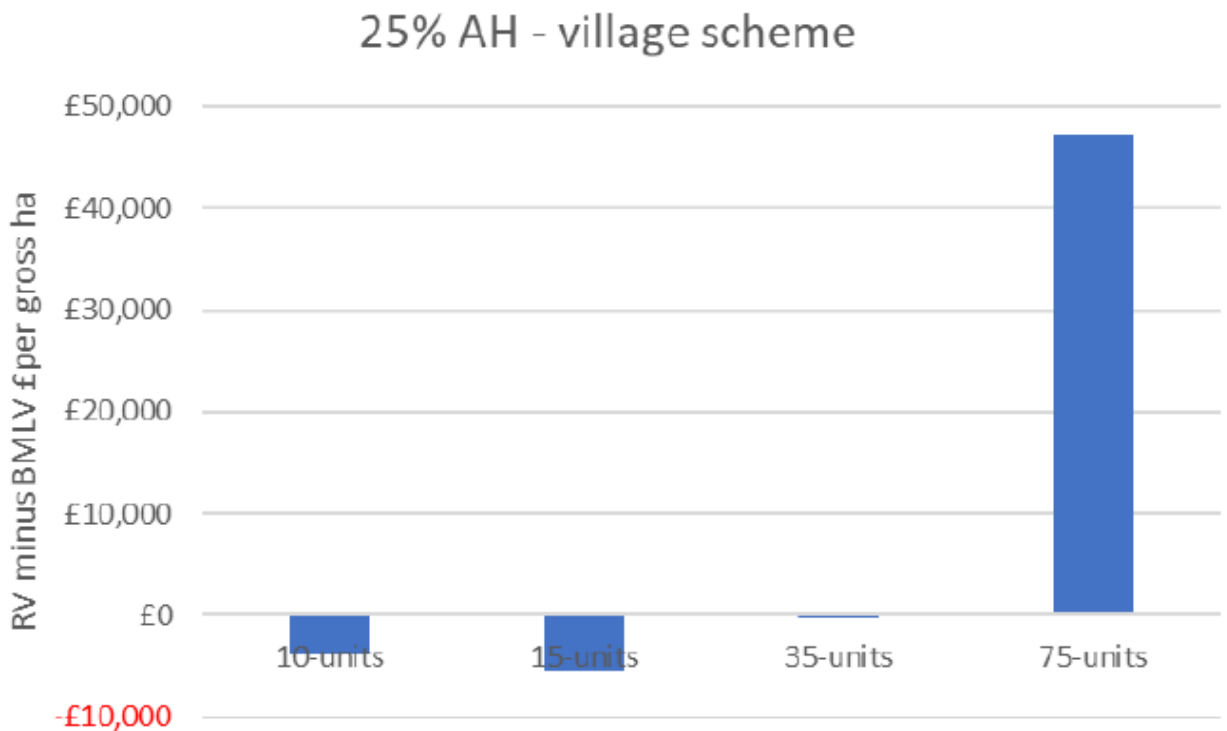


Figure 8

2.33 Coastal Value Areas

2.34 The report notes that house prices in these areas are lower than the rest of the District. However basic development costs are the same but with the additional requirement to include flood mitigation and resilience into developments. The graph in figure 9 shows the results.

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2.35 It is clear that in every case except 1 the developments are unviable even with a zero % affordable housing contribution. The exception is the case study for 200 unit bungalow site @ 20 DPH, which was used as a test example of historic development. The provision of such a site whilst having to mitigate flood risk would in itself however present a challenge.

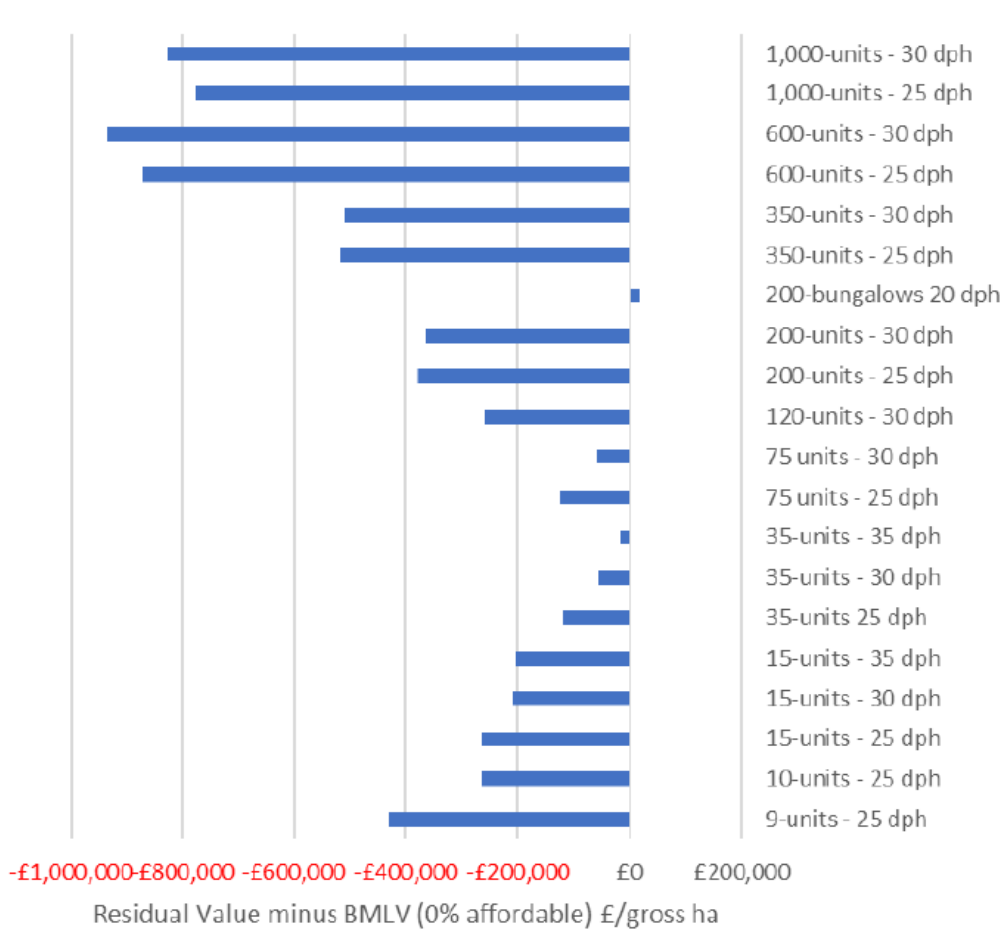


Figure 9

2.36 Environmental Sensitivity Testing

2.37 Section 3.30 in the report explains the potential environmental policy changes that may be enacted could impact on viability (Net Gain, up to 31% reduction in carbon in new builds, and provision of electric vehicle charging facility).

2.38 Two tables have been provided in the report that highlight the potential impact on viability for schemes at 30 DPH And 25 DPH. These only compare the High Value Area areas and Inland Areas, as the Coastal Area has already been shown to be unviable. Again full results are available in the appendices to the study report. The tables are shown in figures 10 and 11 below and it can be seen that these measures do have a significant impact in the viability of sites.

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Environmental sensitivity testing - results are shown per scheme 30 dph	Inland 15-unit case study @ 25% affordable housing	Inland 35-unit case study @ 25% affordable housing	Inland 120-unit case study @ 25% affordable housing	High value 15-unit case study @ 50% affordable housing	High value 35-unit case study at 50% affordable housing	High Value 120-unit case study @ 50% affordable housing
Without environmental measures	£68,376	£198,557	£392,753	£174,179	£535,279	£930,422
With environmental measures	£1,011	£34,886	-£88,034	£106,814	£373,890	£418,293

Figure 10

Environmental sensitivity testing - results are shown per scheme - 25 dph	Inland 15-unit case study @ 25% affordable housing	Inland 35-unit case study @ 25% affordable housing	Inland 120-unit case study @ 25% affordable housing	High value 15-unit case study @ 50% affordable housing	High value 35-unit case study at 50% affordable housing	High Value 120-unit case study @ 50% affordable housing
Without environmental measures	£44,846	£137,645	£192,103	£171,608	£527,964	£1,140,988
With environmental measures	-£24,351	-£29,588	-£389,850	£102,411	£401,427	£569,323

Figure 11

2.39 Sections 3.34 to 3.50 discuss the findings in relation to Older Persons Housing, Rural Exception Sites, alternative affordable housing mixes and the First Homes initiatives. For reasons of brevity these findings are not summarised in this report to Committee, but are mentioned in the section below.

2.40 Residential Viability Analysis – Conclusions and Implications

2.41 The final section of the report sets out the conclusions and implications of the findings. The report makes various observations which are copied into this report in section 2.44 below.

2.42 It is clear that the High Value Areas have high levels of viability all the way up to 50% provision of affordable housing. In Inland Value Areas this viability begins to vary significantly, with smaller schemes still maintaining viability at 30% but with viability generally decreasing as site sizes increased. The Coastal Value Area is shown to be unviable in virtually every case and sites are unlikely to provide affordable housing, although such housing may come forwards on subsidised sites.

2.43 The following points are also useful to note: Specialist Housing for Older people is only viable in the High Value Areas; Rural Exceptions Sites will likely need some form of subsidy, potentially on the back of market housing; a threshold of 10 units to trigger the Affordable Housing need would still be viable in East Lindsey (the current trigger is 15).

2.44 Findings from the report:

- In the High Value Area, schemes of up to and including 200 units were able to deliver at least 50% of those units as affordable housing, including when additional environmental costs were factored in;
- In the High Value Area the potential to secure affordable homes decreases on sites over 200 dwellings; we tested 4 schemes in the range of 350-1,000 new homes and viable affordable housing delivery ranged from 40% on a 350 unit to scheme to (a marginal) 20% on a 1,000 unit scheme (notwithstanding that schemes of this size may not be appropriate in this area);

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- In the Inland Value Area, schemes of up to and including 120 units were able to deliver 30% of dwellings as affordable housing in the towns, although results were marginal on lower density schemes; sites were not viable at this level of affordable delivery in the larger villages, which were marginal even at 25% affordable delivery; when environmental measures were introduced, case studies were not viable, or marginal, with 25% affordable housing suggesting only 20% affordable housing could be achieved;
- In the Inland Value Area the potential to secure affordable homes also decreases as site size increases; we tested 6 schemes in the range of 200-1,000 new homes and viable affordable housing delivery ranged from 20% on a 200 unit 30 dph scheme to 0% on a 600 or 1,000 unit scheme; however a bungalow scheme of 200 units was more viable, suggesting that introducing a proportion of bungalows could help viability in larger schemes;
- It is unlikely that sites in the Coastal Value Areas will be able to deliver affordable housing through s106 schemes (although this does not necessarily preclude affordable only sites); and historically they have not been asked to do so;
- Specialist housing for older people is only viable in the High Value Area – this is without any affordable housing; note we have removed the allowance for capitalised ground rent from our modelling following the government announcement that it will be reduced to a peppercorn;
- Rural Exception Sites are likely to require market housing alongside affordable tenures to enable delivery. The make-up of units on these sites will very much depend upon local need and there will be many permutations; viability will also depend upon the affordable tenures with affordable Low Cost Home Ownership adding more value than affordable rented products. We consider that around half the units would need to be open market sale if RES are to be brought forward without subsidy; but in the coastal area RES would be unlikely to be deliverable without subsidy, even if market homes were included in the mix;
- The recent LHMA (2020) indicates that demand for affordable home ownership may be higher than previously thought. We have looked at the effect of increasing delivery of intermediate housing by 10% compared to affordable rented and whilst this has improved viability slightly, it is not sufficient to change any of the outcomes on its own;
- First Homes are unlikely to improve scheme viability compared with conventional affordable housing delivery unless the 30% discount is subsidised;
- A threshold of 10 units for affordable housing, in line with current PPG, is achievable - viability is similar for both a 10 unit scheme and a 15 unit scheme (15 units is the current threshold in East Lindsey);
- Residual values are improved by higher densities of up to 35 dph.”

3.0 CONCLUSION

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3.1 The findings across the District are complex and the viability is affected by not only the density and location of the site, but also by the number of units provided. The High Value Areas have the ability to provide up to 50% affordable housing on a site, but in contrast the Coastal Value Area shows negative viability for almost all scenarios even with zero affordable housing contribution. The Inland Value Areas sit between this with smaller sites being viable but this viability decreasing as site size increases.

3.2 Environmental Sensitivity Testing, which looks at additional costs of providing net gain, up to 31% reduction in carbon, and provision of electric vehicle charging points, does have a negative impact on viability, in particular in Inland Value Areas.

3.3 Specialist Housing for Older People is only viable in the High Value Areas, with Rural Exception Site housing requiring some form of subsidy or funding through market housing.

3.4 The threshold for triggering Affordable Housing provision could be reduced from the current level of 15 units to 10 units, without significantly affecting viability.

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

None

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

None

EQUALITY AND SAFEGUARDING IMPLICATIONS

None

OTHER IMPLICATIONS

None

CONSULTATION

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Consultation was carried out with the development industry and social housing providers as part of drawing up the Economic Viability Assessment. No other consultation carried out.

APPENDICES

(If none then insert the word 'None' and delete the below text/boxes).

Appendices are listed below and attached to the back of the report: -

APPENDIX A	<i>Economic Viability Assessment</i>
APPENDIX B	<i>(Title of document)</i>
APPENDIX C	<i>(Title of document)</i>

BACKGROUND PAPERS

No background papers as defined in Section 100D of the Local Government Act 1972 were used in the production of this report.

CHRONOLOGICAL HISTORY OF THIS REPORT

(If none then insert the wording 'A report on this item has not been previously considered by a Council body'. Also delete the below text/boxes.)

Name of body	Date
Planning Policy Committee	24 th October 2019

REPORT APPROVAL

Report author:	Simon Milson
Signed off by:	Mike Gildersleeves Assistant Director
Approved for publication:	Councillor Tom Ashton